

# Public Document Pack



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To: Cllr Tim Newhouse (Chairman)

Councillors: Glyn Banks, Haydn Bateman, Ian Dunbar, Alison Halford, Ian Roberts and Arnold Woolley

**Co-opted Member:**

Mr. Paul Williams

19 January 2016

Dear Councillor

You are invited to attend a meeting of the Audit Committee which will be held at 10.00 am on Wednesday, 27th January, 2016 in the Clwyd Committee Room, County Hall, Mold CH7 6NA to consider the following items

## A G E N D A

### 1 APOLOGIES

**Purpose:** To receive any apologies.

### 2 DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

**Purpose:** To receive any Declarations and advise Members accordingly.

### 3 MINUTES (Pages 5 - 16)

**Purpose:** To confirm as a correct record the minutes of the meeting held on 24 September 2015 (copy enclosed).

### 4 PAYROLL FOLLOW UP (Pages 17 - 34)

Report of Internal Audit Manager enclosed.

**Purpose:** To present to the Committee the results of a follow up review of the Payroll report 2014/15.

5 **RISK MANAGEMENT UPDATE** (Pages 35 - 76)

Report of Chief Executive enclosed.

**Purpose:** To review the Improvement Plan 2015/16 mid year strategic risks.

6 **CONSULTANTS** (Pages 77 - 118)

Report of Internal Audit Manager enclosed.

**Purpose:** To present to the Committee the results of a review of consultancy.

7 **TREASURY MANAGEMENT 2015/16 MID YEAR REPORT, QUARTERLY UPDATE AND 2016/17 STRATEGY** (Pages 119 - 204)

Report of Corporate Finance Manager enclosed.

**Purpose:** To present the draft Treasury Management Strategy 2016/17 for review prior to the Committee recommending its approval to Cabinet. To provide Members with a quarterly update.

8 **CORPORATE GOVERNANCE REPORT** (Pages 205 - 234)

Report of Internal Audit Manager enclosed.

**Purpose:** To agree the annual update of the Code of Corporate Governance. To agree the process for preparing the Annual Governance Statement for 2015/16.

9 **STATEMENTS OF ACCOUNTS 2014/15** (Pages 235 - 258)

Report of Corporate Finance Manager enclosed.

**Purpose:** To provide the Audit Committee with the Flintshire's response to the Wales Audit Office Audit of 2014/15 accounts.

10 **EXTERNAL REGULATORS AND INSPECTIONS REPORTS** (Pages 259 - 270)

Report of Internal Audit Manager enclosed.

**Purpose:** To consider the annual reports issued by external regulators and inspectors.

11 **ACTION TRACKING** (Pages 271 - 276)

Report of Internal Audit Manager enclosed.

**Purpose:** To inform the Committee of the actions resulting from points raised at previous Audit Committee meetings.

12 **FORWARD WORK PROGRAMME** (Pages 277 - 284)

Report of Internal Audit Manager enclosed.

**Purpose:** To consider the Forward Work Programme for the Audit Committee.

13 **INTERNAL AUDIT PROGRESS REPORT** (Pages 285 - 318)

Report of Internal Audit Manager enclosed.

**Purpose:** To present to the Committee an update on the progress of the Internal Audit Department.

Yours faithfully



Peter Evans  
Democracy & Governance Manager

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## **AUDIT COMMITTEE** **24 SEPTEMBER 2015**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Thursday, 24 September 2015

### **PRESENT: Councillor Tim Newhouse (Chairman)**

Councillors: Haydn Bateman, Alison Halford and Arnold Woolley

### **LAY MEMBER:**

Paul Williams

### **SUBSTITUTIONS:**

Councillor Ian Dunbar for Glyn Banks, Bernie Attridge for Alan Diskin and Dave Cox for Ian Roberts

### **ALSO PRESENT:**

Finance Manager – Corporate Accounting and Systems and Pensions  
Finance Managers

### **IN ATTENDANCE:**

Chief Executive, Chief Officer (Governance), Internal Audit Manager, Corporate Finance Manager, Finance Manager – Technical Accountancy and Committee Officer

Lead HR Business Partner for minute number 34

Mr. John Herniman and Ms. Michelle Phoenix of Wales Audit Office

## **31. SUBSTITUTION**

In line with the Constitution requirement, the Committee agreed to allow Councillor Ian Dunbar to substitute for Councillor Glyn Banks, Councillor Bernie Attridge to substitute for Councillor Alan Diskin and for Councillor Dave Cox to substitute for Councillor Ian Roberts. It was confirmed that Councillors Attridge, Cox and Dunbar had undertaken the necessary audit training.

Councillor Attridge confirmed that Councillor Dunbar would be a permanent replacement on the Committee in place of Councillor Diskin. The Chairman welcomed Councillor Dunbar to the Committee.

Councillor Haydn Bateman apologised for not attending the drop-in sessions held for Members on the Statement of Accounts due to undertaking Council business.

### **RESOLVED:**

That Councillors Bernie Attridge, Dave Cox and Ian Dunbar be permitted as substitutes for the meeting.

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

No declarations of interest were made.

**33. MINUTES**

The minutes of the meeting of the Committee held on 15 July 2015 had been circulated to Members with the agenda.

Councillor Alison Halford referred to page 4 and 5 of the minutes and her comments about the increase in the precept for the North Wales Police & Crime Commissioner. She said that she did not remember the Chief Executive giving the answer that was recorded in the minutes. At the meeting she had commented that the Council precept partly paid for the Police & Crime Commissioner but the Chief Executive had not agreed. She felt that it was a drain on Council Tax and she had discussed the matter with the local Assembly Member Mark Isherwood. She had been advised that the Police & Crime Commissioner was funded through three separate sources, one of which was the Council precept. In response to a comment from Councillor Bernie Attridge, Councillor Halford said that the minutes did not reflect what was said at the meeting and that the Chief Executive had added in his own opinion of how the Police & Crime Commissioner was funded.

In response, the Chief Executive said that there was a need to deal with the comments and the insinuation made by Councillor Halford and added that the minute did reflect what had been said at the meeting. The issue had also been raised when Mr. Winston Roddick, the Police & Crime Commissioner, had attended the County Council meeting held on 23<sup>rd</sup> July 2015. The Chief Executive recalled Mr. Roddick saying that funding for his role was drawn from National Government. Councillor Halford thanked the Chief Executive for his explanation. The Chief Executive added that the explanation had been provided on a number of occasions and that was why it was not included in the Statement of Accounts, and Mr. Roddick had confirmed that his role was not directly funded from Flintshire County Council.

On the issue of the minutes, the Chief Executive explained that he had provided the response shown and in advising of the process of when officers saw the minutes and their input into them, he asked the Chief Officer (Governance) to provide further information on the issue. The Chief Officer explained that the minutes preparation process involved the Committee Officer taking notes at the meeting and then preparing the draft minutes for circulation to officers. He advised that officers provided explanation where needed and if changes were suggested which the Committee Officer was not comfortable with, then this would be queried with the officer. The draft minutes were circulated for completeness, not for officers at the meeting to add in their own views or opinions.

Following a question from Mr. Paul Williams on compulsory or voluntary redundancy packages, the Chief Executive confirmed that the

Council's policies treated voluntary and compulsory redundancies the same and made redundancy payments for up to a maximum of 45 weeks. This had been applied by the Council for a number of years and the policy had been re-adopted 18 months ago. He added that the policy was different to the statutory redundancy rights. The Chief Officer (Governance) advised that the regulations under which payments were made allowed for statutory discretionary payments for up to 2 years (or 104 weeks) for redundancy pay but the Council's policy was below these guidelines and therefore in effect became a cap on payments.

Councillor Halford queried who the Principal Auditor referred to on page 11 and was advised by the Internal Audit Manager that this was Lisa Brownbill.

**RESOLVED:**

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

**34. STATEMENT OF ACCOUNTS 2014/15**

The Corporate Finance Manager presented the Statement of accounts for 2014/15 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 the Clwyd Pension Fund.

The final accounts incorporated changes agreed by WAO during the course of the Audit, which had been discussed with officers and relevant actions had been taken. One of the issues arising from the audit of the 2013/14 Accounts was that the Council did not have a clear protocol that set out arrangements for the establishment, discharge and review of its Reserves. As a result, a Reserves and Balances Protocol was included as Appendix F to the report. In response to some changes that had been made to the ongoing audit of the accounts and to provide further details on some of the adjustments referred to in the WAO report on the accounts, a briefing note had been circulated in advance of the meeting. In line with the usual practice, a copy of the final accounts had been included on the agenda for the County Council meeting, to be held in the afternoon, where approval would be sought within the statutory deadline of 30 September. The Corporate Finance Manager indicated that officers had accepted the findings in the report but explained that none of the issues raised affected the bottom line in the accounts and therefore the outturn position remained unchanged. He added that WAO had given the accounts an unqualified (clean) opinion. He commented on the issue of presentation of income figures in some areas but explained that a significant amount of work had been undertaken to resolve the issue and ensure that it did not reoccur in the 2015/16 accounts process. The report had identified some weaknesses in the strength of internal controls relating to the processing of payroll. An internal audit had also highlighted this as an area of concern and an action plan was in place. The Corporate Finance Manager advised that more detailed checking would be built into the

timetable for next year. The issues that had been raised in the 2013/14 Statement of Accounts had been resolved satisfactorily.

Councillor Alison Halford expressed concern about the level of paperwork that Members were required to read on their Ipads, and added that this could result in the Audit Committee failing in its duty to audit the accounts appropriately. Following a short adjournment to allow Members to be provided with paper copies of the Statement of Accounts report, the meeting resumed at 10.35am.

#### Audit of Financial Statements report for Flintshire County Council 2014/15

Mr. John Herniman of WAO acknowledged the production of the accounts and the complex work involved. All of the issues that had been raised had been addressed but he added that there were some issues that were outstanding in relation to payroll samples and the categorisation of income and expenditure in the Comprehensive Income and Expenditure Statement (CIES). It was anticipated that these would be resolved by 30 September 2015 and that the WAO would still be able to give an unqualified (clean) opinion on the financial accounts. Mr. Herniman said that this was good news and was pleased to note that there were no new issues as a result of fixed assets in these accounts which had proved problematic in previous years. There were no misstatements identified which remained uncorrected but some concerns had been identified about the preparation of the CIES which he detailed. He asked Members to note that this did not affect the net position on the accounts. Social Care income had been incorrectly reallocated across other services and disclosed in the wrong service line and had resulted in significant restatement of Note 41 Segmental Reporting as well as the CIES.

Mr. Herniman explained that the Council's bank reconciliation had not been prepared correctly and this had meant that cash, cash equivalents and cash overdrawn disclosures had been misstated. The Council had also not complied with the Code in respect of a change in accounting policy on foundation schools as it had only applied the change from 31 March 2014 rather than 1 April 2013. Whilst Mr. Herniman was satisfied that the impact of this was not material to the accounts, auditing standards required all instances of non-compliance with the Code to be reported. Some weaknesses had been identified in the strength of the Council's internal controls relating to the processing of payroll. There had been the need to confirm a sample of employee salaries but some of these documents had not been readily available and some were still outstanding. However, the WAO was confident that these could be resolved and Mr. Herniman was satisfied that these control failures did not impact on the unqualified opinion. The findings were consistent with the recent Internal Audit Report on Payroll issued in August 2015.

The report identified a concern over the level of scrutiny and review of the financial accounts and there was a need for recognition of the Council's collective responsibility for the preparation of the accounts and responding to



the audit process. Mr. Herniman felt that such a review would have raised questions over the number and size of the variances in the CIES and would have allowed most of the amendments identified during the audit to have been identified and addressed before the accounts were certified by the responsible finance officer as a true and fair view of the financial transactions of the Council and presented for audit. He felt that it was important for the Council to learn lessons from this year to ensure that these issues did not reoccur next year. Mr. Herniman concluded by advising the Committee that there were no other matters to be reported and a separate report with details of the recommendations arising from the financial audit work undertaken by WAO would be discussed with officers and presented to the Audit Committee at its next meeting in January 2016.

Councillor Alison Halford thanked Mr. Herniman for his presentation. In response to a query from Councillor Halford, Mr. Herniman reiterated his comments that a quality review would have ensured that the accounts made sense and that explanations had been sought for variances that appeared inconsistent and would have highlighted the concerns about the figures quoted for CIES prior to the responsible financial officer certifying the accounts as a true and fair view of the financial transactions. Councillor Halford also asked Mr. Herniman to advise the Committee on whether it should recommend approval of the accounts to Council. Mr. Herniman said that it was for the Committee to make its decision based on the assurances that had been provided by WAO and the Finance Team.

Councillor Halford expressed significant concern about the late stage that the issues of concern highlighted by the WAO had been raised and said that this could not be allowed to continue. She felt that the provision of the Statement of Accounts was a large burden on the Corporate Finance Manager and his team and suggested that they were struggling to cope with it. She added that she could not recommend the approval of the accounts to Council. Councillor Bernie Attridge said that it was for the Audit Committee to make a judgement on whether to recommend the accounts to Council after an explanation had been heard from WAO and the Finance Team. The Chief Executive said that there were two issues outstanding and that as neither was material to the accounts, then the Audit Committee was in a position to recommend the accounts with the caveat that both of these issues would be resolved appropriately to allow approval of the accounts with an unqualified opinion to comply with the deadline of 30 September 2015.

In response to the comments of Councillor Halford, the Corporate Finance Manager explained that a large amount of work had been undertaken on reviewing the financial statements but it appeared that it had not been carried out in enough detail; a review would be built in to the process for the 2015/16 accounts. He reiterated that the changes did not affect the bottom line. All of the necessary work had been completed and it was now for WAO to look at the figures and confirm they were acceptable prior to 30 September 2015. On the issue of the payroll data requested by the WAO, the Lead HR Business Partner explained that approximately ten pieces of information were outstanding but she anticipated that these would be resolved by the end of the

following day. The Chief Executive advised that as WAO was satisfied that the work on the remaining issues could be undertaken to comply with the deadline of 30 September 2015 their unqualified opinion should remain unchanged.

A number of issues had arisen during the audit of the accounts but these had been new issues to those identified in previous years and there was a high level of satisfaction that these would not reoccur for the 2015/16 accounts. On the issue of the variances in the CIES, the Chief Executive confirmed that the accounting approach had been changed and therefore the issues would not reoccur. A mop-up meeting would be held by the end of November 2015 and, in acknowledging the point that the variances in the CIES could have been spotted earlier, he suggested that an officer working group, to include officers from Finance and other departments, be set up with the support of WAO to review the issues identified in the audit. He added that the issues raised in the audit and the Internal Audit report on Payroll would be discussed with the Employment Services Manager to ensure that capacity levels were correct. The findings and the overall issues raised in the WAO report would be the subject of a report to the January meeting of the Committee. The Chief Executive said that officers shared the level of disappointment, and would ensure that a more rigorous review of the accounts for 2015/16 was in place whilst reminding the Committee that this did not detract from the unqualified opinion on the accounts by WAO.

Mr. Paul Williams thanked the Corporate Finance Manager and the Finance Manager – Technical Accountancy for their hard work. He felt that there were concerns about the drilling down of the budget processes and sought assurance that these would not reoccur in the future. He suggested that the accounts be recommended to Council subject to the WAO issuing an unqualified opinion but that Members of the Council be advised of the strong concerns about the underlying processes and that an independent review of processes be undertaken if the results of the working group to correct the errors reflected in the report of WAO highlighted any concerns. The proposal was duly seconded by Councillor Tim Newhouse.

In response to a query from Councillor Halford, the Chief Executive spoke of the changes that were to be implemented on the level of scrutiny and review of the financial statements which would have highlighted the variances in the CIES. He spoke of the professional relationship between the Council and the WAO and Mr. Herniman confirmed that this had been maintained during the production of the report, even though this had been a difficult year. He added that the WAO had confidence in the officers that had produced the accounts.

Councillor Halford sought clarification on the changing to the way in which the CIES was produced and in response the Finance Manager – Technical Accountancy explained that this would result in a fully automated process by 'mapping' budget codes to the various lines in the statement. She added that the automated process was undertaken in the 2013/14 accounts for expenditure and this year it had been used for income but some of the

information had not been placed in the expected account line. She appreciated the frustrations expressed by the Members but reminded the Committee that the variances in the CIES did not affect the 'bottom line' in the accounts or the unqualified opinion provided by WAO. Mr. Herniman also explained that the work to convert the way the CIES was produced had now been undertaken and the problems which had been identified would be addressed to prevent them reoccurring in the 2015/16 accounts. Councillor Halford felt that this was a bad audit and asked what had been gained by the automating of the CIES. Councillor Newhouse indicated that he and Mr. Williams had identified some concerns but they had not felt that the changes in producing the CIES was an issue. He confirmed that the changes would not reoccur next year and would result in a more accurate process for future years.

Councillor Arnold Woolley felt that the areas of concern related to capability, capacity, timelines, fundamentals and underlying issues. He explained which areas he felt required further consideration and agreed with the proposal by Mr. Williams to recommend acceptance of the accounts with an independent review being an option if the concerns were not addressed in the findings of the working group. In response, the Finance Manager – Technical Accountancy provided an explanation on the fundamental control and agreed that the errors identified should not have occurred but would not be repeated in the future.

On the issue of capacity, Councillor Bernie Attridge sought clarification that sufficient staff were in place to undertake the work required. In response the Chief Executive confirmed that discussions had been undertaken with the Corporate Finance Manager and Finance Manager – Technical Accountancy and a judgement of the level of capacity had been made. He added that this would be discussed as part of the de-brief on the accounts in the coming months. He would also speak to the Employment Services Manager on the issue of capacity in Payroll and the consideration of the need for temporary resources. Councillor Attridge welcomed the establishment of a working group but raised concern about the failure of departments to provide information in a timely fashion; he asked that the Chief Executive raise the issue with the Chief Officer Team to highlight its importance.

A discussion was undertaken on the proposal put forward by Mr. Williams and Councillor Halford sought clarification on who would carry out the independent review, if one was required. Mr. Williams provided suggestions of companies that could undertake the work. The Chief Officer (Governance) said that the WAO had been an external scrutineer in the accounts process and had therefore provided an element of an independent review of the report before the Committee. In response to a further query from Councillor Halford, the Chief Executive said that the working group would be chaired by himself or the Chief Officer (Governance) and would consist of officers from Finance and other departments. A mop-up meeting would also take place by the end of November 2015 and a report on any capacity issues and the issues raised by the WAO report would be submitted to the Committee in January 2016 for assurance.

## Audit of Financial Statements report for Clwyd Pension Fund 2014/15

Mr. John Herniman explained that the audit had been completed and it was the intention of WAO to issue an unqualified audit report on the accounts. At the time of writing the report, independent valuations amounting to £5.9million were awaited but this did not reflect the proposed opinion as the figure was below materiality. There were two misstatements which had been corrected and these were explained in appendix 3, and two areas of concern about the qualitative aspects of the accounting practices and financial reporting which were also reported. Mr. Herniman felt that these could be easily addressed and no other areas of concern had been raised in the audit of the accounts. The Chief Executive confirmed that the timeline relating to the independent valuations would be reviewed to prevent reoccurrence in the future.

### Reserves and Balances Protocol

The Corporate Finance Manager explained that the provision of a protocol arose from the 2013/14 audit of the accounts. The type of reserves that the Council could hold were detailed in paragraph 2.00 of the protocol where it was explained that the Council Fund reserve was to manage the impact of any significant unforeseen events and the Council's policy had been to maintain a level equivalent to 2% of its annual budget. Earmarked reserves were to meet known or predicted future requirements and were held corporately or within individual service portfolios for specific purposes. Schools' reserves were funds, which were held by the Council on schools behalf, and released under delegated budgets unspent at year end. The Housing Revenue Account (HRA) reserve was ringfenced in the same way that the HRA budget was a ringfenced account and could only be used for activity relating to the management and maintenance of housing. The creation of a new earmarked reserve would require Cabinet approval which would be actioned through the monthly budget monitoring report at the relevant point in the financial year. Section 4 detailed the monitoring and reporting of reserves and balances and a summary of the latest position in relation to reserves would be reported quarterly to Cabinet and Corporate Resources Overview & Scrutiny Committee through the monthly monitoring report.

Prior to the conclusion on the audit of the Statement of Accounts, Councillor Attridge asked that thanks be passed on to the Finance Teams for their work on the production of the accounts for the Council and the Clwyd Pension Fund. He was confident that the issues raised would be addressed.

### **RESOLVED:**

- (a) That subject to Wales Audit Office (WAO) being able to confirm its unqualified opinion, the statement of accounts for 2014/15 (including the amendments and corrections circulated by the s.151 Officer) be recommended to Council for approval;

- (b) The Committee recorded its concerns that the issues in the WAO Audit of Financial Statements Report. It noted that an officer working group was to be established by the Chief Executive to correct the issues in that report (including confirmation that errors in the accounts were not due to underlying errors in the budget), and, having considered the results of that working group, reserved the right to later seek an independent review of processes, if required;
- (c) The Committee considered WAO's reports: Audit of the Financial Statements – Flintshire County Council, and Audit of the Financial Statements – Clwyd Pension Fund;
- (d) The Committee recommended to Council: the Letter of Representation – Flintshire County Council, and the Letter of Representation – Clwyd Pension Fund; and
- (e) The Committee recommended to Council the Reserves and Balances Protocol.

### **35. INTERNAL AUDIT PROGRESS REPORT**

The Internal Audit Manager presented the report to update Members on the progress of the Internal Audit department. He detailed the background to the report and explained that transition to a new software package had resulted in a number of audit reviews which had exceeded their budgeted time. The delays would become less as the team became more familiar with the system and this would be closely monitored to ensure that the pace of completion was picked up for the remainder of the year. In the first five months, 55% of the annual budgeted time for work on a number of investigations and National Fraud Initiative work had taken place. The implementation of the integrated audit software was continuing and recommendation tracking through the system would commence shortly.

All reports finalised since the last committee meeting were shown in Appendix C and in referring to the 'red' assurance on the Schools Thematic Review, the Internal Audit Manager provided details of the schools that had been visited and the high and medium level recommendations made. Concerns about Payroll had been raised earlier as part of the discussions on the Statement of Accounts but the Payroll review undertaken by the Internal Audit team had looked at the overall control of the section. A number of issues had been raised by both the team and the Wales Audit Office (WAO) and a follow-up report on the work of the Group identified earlier by the Chief Executive would be considered by the Committee at its meeting in January 2016.

Appendix D showed the responses that had been received when tracking recommendations. For recommendations that had not been implemented on time, the relevant Chief Officer was required to confirm that the reason and the new date were both acceptable to them. It was also

necessary to report on how the risk was being managed before the recommendation was implemented. The status of outstanding recommendations that were more than two years old were reported and these related to Procurement, Main Accounting, Enforcement and Capital Programme. The recommendations were still being actioned but had required long-term solutions and most of the long-standing recommendations would be addressed by the end of the year. The Internal Audit performance indicators were reported on page 42 and the return of client satisfaction questionnaires had improved from 14% at quarter 4 to 53% at quarter 1. Appendix F provided details of new referrals that had been received, investigations that were still ongoing and investigations that had been completed.

The Internal Audit Manager commented on the Whistleblowing policies in schools and the concerns that had been expressed by the Committee over the adoption of the policies. All schools had been contacted to confirm whether they held a policy and to provide a copy for review and the results would be passed to the Chief Officer (Education and Youth) for his team to follow up as necessary.

Councillor Bernie Attridge raised significant concern about the number of days taken for departments to return draft reports. In response, the Internal Audit Manager commented on the introduction of a new template and the procedures in place which had been redesigned to ensure a prompt response as the department was advised that it would be assumed that the report was an accurate record of the debrief meeting if it was not returned within the prescribed deadline. Councillor Attridge felt that the three day target had been set for a reason and queried what was in place to ensure that officers complied with the deadline and whether the same department or officer were always responsible for the late return of draft reports. The Chief Executive acknowledged the comments made and spoke of the reductions in bureaucracy but added that there may be a need to review the three day target for a response as it was an ambitious one. The Internal Audit Manager said that he did not have the details with him about individual officers or departments but added that the target for the total days from the end of the fieldwork to issuing the final report had been achieved.

In response to a query from Councillor Haydn Bateman on one of the investigations that had been completed, the Chief Executive advised that an update report on Housing control was to be submitted to a future meeting of the Community & Enterprise Overview & Scrutiny Committee. He also commented on the work of the Internal Audit Team on the serious case. The Internal Audit Manager confirmed that additional processes and controls had been put in place but added that it was an isolated case. Councillor Alison Halford indicated that she had not been aware of this case and in response, Councillor Bernie Attridge indicated that it was not always appropriate to advise Members of individual investigations; the Chairman advised that the incident had been raised with him. The Chief Executive reiterated that the report to the Community & Enterprise Overview & Scrutiny Committee would provide assurance that this was a one-off case and that allocations were being controlled according to policy. Councillor Halford felt that the delay had

cost the authority because WAO had had to wait for some reports on the long standing issue and spoke of the reliance on senior officers and suggested that the Chairman of the Community & Enterprise Overview & Scrutiny Committee should have been made aware of the issue. The Internal Audit Manager indicated that the incident had been brought to the attention of the Internal Audit Team in June 2015 and this had been the first opportunity to submit it to this Committee. The Chief Executive advised that such cases were not routinely brought to the Audit Committee. He acknowledged the need for earlier briefings on such issues, which may affect confidence in services, with the Chair and Vice-Chair of the appropriate Overview & Scrutiny Committee.

Councillor Arnold Woolley felt that any delays from departments on report turnaround and actioning were unsatisfactory and suggested that officers should be asked to attend Audit Committee to explain why any delays were continuing. He also felt that sanctions should be in place and that the Audit Committee was not undertaking its duty if Members did not exercise the right to request attendance at meetings by officers.

In response, the Internal Audit Manager confirmed that no officers had been asked to explain delays to the Audit Committee but added that there had been an improvement in the returning of draft reports from quarter 4 to quarter 1. Issues were being addressed before they reached the stage of needing to be called before the Committee but if the concerns were significant and did not improve then this suggestion would be enforced. Mr. Williams endorsed the comments of Councillor Woolley and welcomed the assurances that had been provided by Chief Executive and the Internal Audit Manager.

Mr. Williams referred to the last bullet point on the section about Contingent Liabilities in the Statement of Accounts, asked if Internal Audit had been involved and sought clarification on how much had been set aside in preparation for the outcome from the High Court. The Chief Officer (Governance) indicated that Counsel had advised that the case was misconceived and over valued. As yet the Audit Committee had not been informed of this case because there was (in light of Counsels advice) no indication that the Council's procedures were flawed. If the case was lost in the High Court, it was expected that Internal Audit would need to undertake an investigation. The Portfolio Holder had been made aware of the case.

**RESOLVED:**

That the report be noted.

**36. ACTION TRACKING**

The Internal Audit Manager presented an update report on actions carried out from points raised at previous Audit Committee meetings. It was noted that most actions had been undertaken and there were no concerns with the report.

**RESOLVED:**

That the report be accepted.

**37. FORWARD WORK PROGRAMME**

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

He advised that a report on the set up of the Group to consider the finance analysis would be included for the January 2016 meeting.

Councillor Bernie Attridge suggested that a training session on Member Ipads be held. The Chairman advised that a training session had been offered for the Committee prior to the June 2015 meeting.

**RESOLVED:**

That the Forward Work Programme as amended be approved.

**38. MEMBERS OF THE PUBLIC AND PRESS IN ATTENDANCE**

There were no members of the public or press in attendance.

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

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**Chairman**





## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday, 27 January 2016
<b>Report Subject</b>	Payroll Follow Up
<b>Cabinet Member</b>	N/A
<b>Report Author</b>	Internal Audit Manager
<b>Type of Report</b>	Follow up

### EXECUTIVE SUMMARY

In their Audit of Financial Statements Report presented to the committee in September 2015, Wales Audit Office commented on weaknesses in internal controls relating to the processing of payroll. They pointed out that their findings were consistent with a recent Internal Audit report.

A follow up review of the Internal Audit report has now been completed, showing significant progress has been made in implementing the recommendations.

### RECOMMENDATIONS

1	Members note the progress made in implementing the actions from the original report.
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## **REPORT DETAILS**

<b>1.00</b>	<b>EXPLAINING THE PAYROLL FOLLOW UP AUDIT REPORT</b>
1.01	When discussing the WAO report in the September Audit Committee meeting, it was noted that there was already an action plan in place to address the issues in the Internal Audit report. Given the level of concern within the committee it was decided to complete a follow up review of this report earlier than normal and report back the findings to the committee along with the progress report on all other actions arising from the WAO review.
1.02	<p>The Internal Audit Payroll follow up review has been completed. The final report is attached as Appendix 1. It shows substantial progress has been made in implementing the original recommendations, in some cases ahead of the original implementation dates. 10 of the 14 recommendations have been fully implemented, a further 2 are in progress, and the final 2 are not yet due for implementation but even so progress has been made. Where possible, as well as ensuring the new control was in place we also confirmed its effectiveness.</p> <p>As a result of the follow up work we have made a few additional recommendations.</p>
<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None other than officer time and associated costs to implement the recommendations.
<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None required.
<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	The main risks were in not implementing the recommendations, leading to continuing weaknesses in control. These risks have been mitigated by the actions taken.
<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Payroll Follow Up Review.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<b>Contact Officer:</b> David Webster – Internal Audit Manager <b>Telephone:</b> 01352 702248 <b>E-mail:</b> david.webster@flintshire.gov.uk

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>Wales Audit Office:</b> works to support the Auditor General as the public sector watchdog for Wales. They aim to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.</p> <p><b>IDEA:</b> Audit sampling software that enables us to compare large amounts of data to identify matches or duplicates.</p> <p><b>Electronic Data Management:</b> A system whereby electronic copies of documents are held instead of hard copies.</p>

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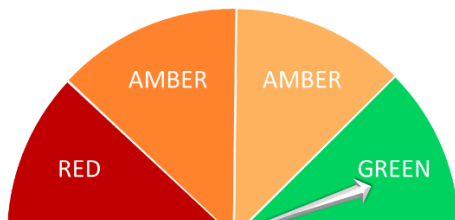
## Flintshire Internal Audit

## Follow Up Audit Report

**Title:** Payroll Follow Up Review  
**Portfolio:** People and Resources  
**Issued Dated:** December 2015  
**Report No:** 45F-2015/16  
**Report Status:** Final

Internal Audit engagements are conducted in conformance with the Public Sector Internal Audit Standards.

### Audit Opinion



# 1. Executive Summary:

## Introduction and Scope:

We completed an audit of Payroll in August 2015, audit report reference 19-2014/15. Our overall opinion in that audit was that the controls environment in operations at the time provided **some** assurance that key risks were being managed and controlled effectively (Amber/Red). The original audit report we issued contained eight medium and six low agreed actions for management.

Wales Audit Office also reviewed Payroll as part of their work on the annual accounts. They identified weaknesses consistent with our report. This follow up audit has been completed earlier than usual in order to give the Audit Committee assurance that action had been taken to address the issues.

The scope of this follow-up is to assess how effectively the outstanding actions identified in the original audit report have been addressed.

Our approach in this follow-up audit includes interviewing management, review of supporting documentations and carry out audit testing to identify the progress made against management's agreed action.

We can report that Employment Services have taken action against all the recommendations previously made and much progress has been made in implementing them. It is recognised that at the time of conducting this review not all of the new controls, resulting from the actions taken, were fully in place due to the recruitment processes commencing ahead of our starting date of 2nd October 2015. We have also taken into consideration that at the time of the review Employment Services have had IT issues with the creation of PDF documents for uploading and not all documents were scanned onto EDM at the time of the review. We were satisfied in

## Audit Opinion:

Taking account of the issues identified in the remainder of the report and in line with our definitions set out below, in our opinion Management has demonstrated **Substantial** progress in implementing agreed actions.

## Definition:

<b>Overall number of agreed actions fully or partially implemented</b>	75%+	51-75%	30-50%	>30%
<b>Opinion</b>	<b>Substantial</b>	<b>Reasonable</b>	<b>Some</b>	<b>Limited</b>

The audit opinion is assessed following the completion of the audit by qualified staff. Audits resulting in **Some** or **Limited** assurance will be reported to Audit Committee and progress monitored over the implementation of agreed actions.

## Summary of New Actions:

The table below highlights the number and priority of **new** actions to be implemented.

Priority	High	Medium	Low	Total
No.	0	1	3	4

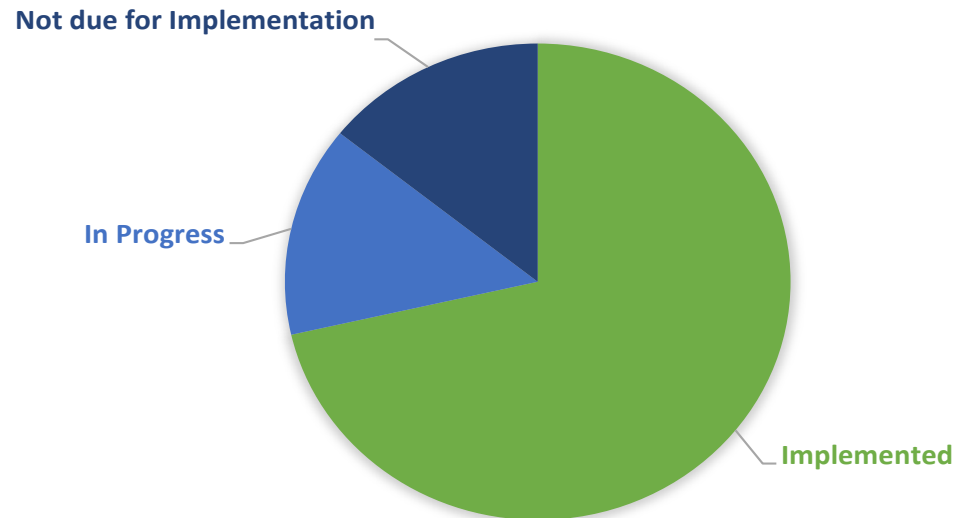
having sight of the relevant documents on the HR database or awaiting scanning to EDM.

## 2. Data to Support our Opinion:

Total No. of Agreed Actions	Status of Agreed Actions				
	(1) Implemented	(2) In Progress	(3) Not Implemented	(4) No Longer Valid	(5) Not due for Implementation
14	10	2	0	0	2
100%	72%	14%	0%	0%	14%

(1+4) Agreed Actions confirmed as completed or no longer valid	(2+3+5) Agreed Actions carried forward for follow up at next review
10	4
72%	28%

STATUS OF AGREED ACTIONS





### 3. Action Plan – New Actions:

Priority	Description
High	Issues are fundamental and material to the system of internal control for the area under review.
Medium	Issues where improvements in control are needed to reduce the risk of loss, error, irregularity, or inefficiency.
Low	Matters that merit attention and would improve overall control or efficiency.

No.	Findings and Implications	Agreed Action	Who	When
1	Although Employment Services have put in place procedures to obtain empty Reporting Manager fields on their reports, there has been a lack of response from employees and their Chief Officer when requested to provide this information.	This issue will be raised with Chief Officers and a request made to remind all employees of the need to provide information when requested.	Sharon Carney	31/01/2016
2	<p>We used IDEA to compare the 2 reports of FCC New Starters to the report provided to Pensions of New Starters to the Clwyd Pension Fund. We found that none of the new starters from the FCC New Starter report were on the spreadsheet of LGPS Starters and Transfers October 2015.</p> <p>These two reports are taken off two different systems.</p> <p>The spreadsheet is a report of changes to Payroll and this is not necessarily the start date of a new employee but the date that they are set up on Payroll and the key to this report is the audit stamp. We selected 10 new starters from the new starters report and one of the employees in our sample did not appear on the LPGS reports due to the audit stamp being incorrect. This is currently being investigated by MidlandHR. We were able to match the remaining new starters but only by going back to July 2015. This is a time consuming process in order to filter out actual new starters from other changes.</p>	<p>The report sent to Pensions of new starters and transfers will be reviewed to simplify the process.</p> <p>A call has been logged with MidlandHR (Case No 44064) regarding the issue of the audit stamp.</p>	Paul Jones	30/04/2016
3	Our follow up on the reporting issues between Employment Services to Pensions Payroll on Flintshire new starters revealed continuing issues. Improvements have been made and data quality tests are being undertaken within Employment Services. The Annual Service Return report has been upgraded by Midland Trent and this has had	Access to Info View Business Solutions for Pensions Payroll staff, filtered for relevancy to LGPS, will be considered in order for them to see all brand new starters to the	Paul Jones	30/04/2016

No.	Findings and Implications	Agreed Action	Who	When
	<p>favourable feedback as being much improved and endorsed by the Technical Development Officer for Pensions and Funds.</p> <p>A relatively simple solution to the problem with new starters may be to grant access to Info View, Business Solutions, for Pensions staff to see all new starters to assist in maintaining their database.</p>	<p>Authority.</p>		
4	<p>Instead of one hard copy file of the Authorised Signatory List (ASL) being maintained there are now 3 files in alphabetical order of all new forms for Certifying Officers. A new look electronic copy of the ASL has also been devised, using where possible the same certifying Officers numbers as Finance for consistency and to avoid confusion. The form has been streamlined to reduce the number of columns and a column added (green) to highlight all new forms added. It is planned to upload this into the facility for certifying officers within iTrent so that Employment Services (ES) employees will have all the information to hand to check the certifying officer information.</p> <p>HR forms can no longer be submitted to the HR database without a Certifying Officer number.</p> <p>We selected a sample of 10 new certifying officers since 2/10/2015 and checked to ensure that the electronic version had been updated and the details were correct. We found:</p> <ul style="list-style-type: none"> <li>In one case the details entered on the electronic ASL were incorrect. An extra level of authorisation had been input to the electronic copy than was authorised for on the paper form.</li> </ul>	<p>The new version of the electronic ASL will be thoroughly reviewed prior to its upload to the facility within iTrent. Once on iTrent, the Certified Officer Form will be amended to be signed off by Chief Officers for all new Certifying Officers requests</p>	<p>John Griffiths</p>	<p>30/04/2016</p>

## 4. Findings:

Each recommendation followed up has been categorised in line with the following definition:

<b>Implemented</b>	The entire recommendation has been fully implemented
<b>In Progress</b>	The recommendation has been partly though not yet fully implemented
<b>Not Implemented</b>	The recommendation has not been implemented
<b>No Longer Valid</b>	The recommendation has been superseded and is no longer applicable
<b>Not Due for Implementation</b>	The agreed date for implementing the recommendation has not yet been reached

No.	Original Findings	Agreed Action	Original Priority	When	Who	Outcome / Findings
1	<p>The Technical Development Officer within Clwyd Pensions Fund (CPF) obtains a monthly report of all new starters and movers within iTrent to provide key data for the CPF. The report of new starters for the period December 2014 was received from Payroll and identified 51 starters and 22 staff transfers.</p> <p>On examination the following was found:-</p> <ul style="list-style-type: none"> <li>• Of the 51 starters notified only ten had a payroll number with the letter "A" after the number which indicates the member of staff is a new starter. The other 41 have been employed by FCC previously, as they had other letters other than an "A" after their number.</li> <li>• The December report was not issued to</li> </ul> <p>The report should only include those New Starters who are new to the Authority rather than those who have changed posts within the Authority.</p>	<p>The Team Leader – Systems &amp; Data Support, Payroll will request assistance from the Payroll provider Midland Trent and a solution will be sought. A call has now been logged on the Midland help desk.</p> <p>If the reports produced from the system are still not providing meaningful information then reverting back to the manual system will be considered. This would require extra staff resources as this process is longer and more time consuming. An explanation will be sought as to why data from the LG Pension Reports within Third Party Returns is unreliable. There has been a delay in issuing reports to Pensions but this has become less of an issue since the December report.</p>	Medium	Oct 2015	Paul Jones	<p><b>In Progress:</b></p> <p>We confirmed that a call had been logged with Midland Trent (Call Reference Number CRN 36110) which has now been closed. There have been some improvements to the report where employees with multiple positions within the Authority have been separated but issues remain where new starters reported to Pensions are already set up on the Altair system. This is still being investigated and data quality checks are being undertaken. Discussions will need to be had around developing a new format where 'brand new' starters are reported more effectively.</p> <p>See new Actions 2 and 3</p>

	<p>the CPF until the 4th March 2015.</p> <p>The Technical Development Officer has approached Payroll staff identifying the problems they encounter with the reports not containing accurate data. The Payroll staff are aware of the issues and are as frustrated with the reports as the issue cannot be rectified in house. This issues was raised at the time of the last payroll audit.</p> <p>The delays incurred in receiving monthly starters and movers reports from Payroll results in a delay for the Pensions team</p>	<p>Reports will be issued promptly.</p>				
2	<p>Prior to running the monthly Payroll, a pre edit costing report is generated. Investigation and rectification is required to correct the data prior to the Payroll run. Testing found that there were instances of timesheets being processed to pay which did not include any budget codes resulting in unnecessary additional work.</p>	<p>Finance Staff involved in the manual input of cost codes on timesheets will be reminded of the importance of the codes being accurate. Portfolios will be contacted and guidance notes provided which detail the importance of the general ledger codes being accurately provided.</p>	<p>Medium</p>	<p>Sep 2015</p>	<p>Irene Jackson</p>	<p><b>Implemented:</b></p> <p>A Guidance for Fast Input (Timetrent) Electronic Submission document has been developed and provided to all users of the Timetrent electronic timesheet on 02/10/2015.</p> <p>Our testing on ten timesheets confirmed that all codes were being applied appropriately where required.</p>
3	<p>We selected a sample of 10 new starters and found that only one had an actual New Starter Form which had been scanned on to the EDM system. Five had Conditional Offer letters which we were informed was acceptable under a recent trial of certain areas where the number of forms to be submitted is particularly onerous. One had an E Teach Request from a school and one had a Pay Header Sheet submitted from Theatr Clwyd. Two had no evidence of a new starter form.</p>	<p>The process for ensuring all new starters have appropriately authorised documentary evidence on the HR database and EDM system will be reviewed to ensure consistency</p>	<p>Medium</p>	<p>Jan 2016</p>	<p>Irene Jackson</p>	<p><b>Implemented:</b></p> <p>A New Starter Checklist form has been created to ensure all documentation is received, checked and entered onto the Electronic Data Management (EDM) system. A version for schools has also now been completed.</p> <p>Our testing of ten new starters from 02/10/2015 confirmed that the New Starter checklist is being used and</p>

						where expected scanned onto the EDM system.
4	From our sample of ten leavers we found that four had no Leavers Forms. Three of these were schools staff and one had a letter of resignation emailed from the school but this did not correlate with the date of leaving on the report. One employee was a Theatr Clwyd employee. Two of the Leavers Forms examined were not authorised by a Certifying Officer and one of these was signed by the employee who was leaving.	The process for ensuring all leavers have the appropriately authorised evidence of leaving the Authority maintained on the HR Database and EDM system will be reviewed to ensure consistency.	Medium	Jan 2016	Irene Jackson	<b>Implemented:</b> We can confirm that a process for Leavers has been created by the Team Leader HR and disseminated to the Employment Services Team. Leavers' information is received into ES via a number of routes, HR Form, Email and Letters of Resignation. The latter two options are for school staff only. All notification of leavers must be submitted by a certified officer and will be rejected if not. All details must be uploaded to EDM. Our testing on ten leavers confirmed that the appropriate documentation is being submitted by the approved options.
5	Of our sample of ten leavers we found that three were still set up to be paid on iTrent. We were satisfied that they had not been paid since leaving however, it is possible to reopen an 'old' record via the Temporary Reinstatement function on iTrent and make a payment. Payments to persons having left the Authority are not currently monitored and there is a risk of erroneous payments being made.	A Payment Post Leaving Date Report will be created and monitored on a monthly basis.	Medium	Jul 2015	Paul Jones	<b>Implemented:</b> We can confirm that this report has been created and is being checked monthly for any unusual items.
6	Claims for overtime are not fully complete as budget codes are not always provided. The transaction then appears on the out of balance report which is run prior to each Payroll and is sent back to the relevant Finance team to provide a code. This is not always the originator of the original	The costing validation function should be introduced as soon as possible. This will ensure that only authorised budget codes are provided to Payroll.	Medium	Mar 2016	John Griffiths	<b>Not Due for Implementation (In Progress):</b> The work for this action is ongoing. Initial testing has been undertaken but the file from Finance has not been able to be loaded successfully. A Midland helpdesk

	<p>information and therefore incorrect budget codes may be provided. In some instances Payroll use generic codes if codes are not provided.</p> <p>The Employee Services Manager stated that he will continue to accept timesheets without a budget code being provided. As a consequence inaccurate budget data and staffing costs may be produced, which would impact on individual budget monitoring arrangements.</p>					<p>call has been logged for this issue (CRN 41180). We have evidenced the correspondence with IT on the testing of files and problems logged with Midland Trent. We have been informed that a consultant is co-ordinating the preparation of processes and procedures around the maintenance of a library of codes.</p>
7	<p>Additional payments are received from Departments using timesheets, timetrent and e.mail.</p> <p>It was found that requests for additional payments relating to overtime are often emailed to individual members of payroll staff. If this process is allowed to continue Payroll staff should ensure full audit trails exist and the data is held in a central location accessible for all staff to access.</p>	<p>A formal process for the receiving and processing of additional payments should be created and all Payroll staff to adhere to it. Payroll staff should be reminded of the importance of maintaining a full audit trail and the process for copying the details into the relevant work area.</p>	Medium	Sep 2015	Irene Jackson	<p><b>Implemented:</b></p> <p>We can confirm that a process has now been created for the receiving and submitting of additional payments to Employment Services (ES). All requests for additional payments which are not submitted via an approved method and not authorised by a certified officer are rejected.</p> <p>Our testing on additional payments confirmed that these were being submitted and authorised appropriately.</p>
8	<p>All changes to school Payroll are issued using an authorised form changes to conditions (CTC). The school submit this using the schools generic school email addresses and there is often a lack of authorisation of the form. The lack of controls could result in misuse.</p>	<p>It has been agreed to produce an authorisation list which contains only two members of staff from each school who can authorise and send through to payroll changes via email. The use of the schools generic lotus notes email must stop and future emails must be issued directly from the member of staff's email account. Guidance notes will be produced and placed onto Moodle for all staff to become</p>	Medium	Mar 2016	Paul Jones	<p><b>Not due for Implementation (In Progress):</b></p> <p>The work on this is ongoing. The New Starter Checklist has been adapted and distributed to schools. A review of the current forms used by schools has led to the possibility of having an on-line schools forms database which will facilitate greater control over authorisation of changes to schools' payroll.</p>



		<p>aware and familiarise themselves with the revised process.</p> <p>All CTC forms should be signed as authorised by at least one of the two staff members from the authorised list from each school.</p>				<p>Authorised officers are being reviewed.</p>
9	<p>We checked ten New Starters to ensure they had the appropriate signed Contract of Employment within their personal file on the Electronic Document Management (EDM) system. We found :</p> <ul style="list-style-type: none"> <li>• In three cases we could not trace a Contract of employment. These related to supply workers engaged through ETeach and therefore did not require a Contract.</li> <li>• Four of the sample had Letters of Engagement or Terms and Conditions letters rather than official contracts as they were relief staff employed on a casual basis. One of these had not been signed.</li> <li>• None of the remaining three in the sample had been signed.</li> </ul> <p>In one case the contract had the wrong employee name and different start date, this has now been rectified but the EDM system has not been updated to reflect this.</p>	<p>We will review the Induction Checklist to add another line for reminding managers to obtain signatures on Contracts of Employment.</p>	Low	Sep 2015	Irene Jackson	<p><b>Implemented:</b></p> <p>We reviewed the form and can confirm that this has been changed to include a section for the obtaining of signatures on Contracts of Employment.</p> <p>Our testing on Contracts revealed that signed copies are now being obtained and scanned onto the EDM system.</p>
10	<p>We reviewed the process for the submission of timesheets to Payroll. These are emailed to Payroll from various services and are maintained on the Time Trent system. Authorisation of the timesheets is taken as being the person emailing the information. Our testing of ten timesheets submitted in March 2015 found that not all the persons emailing the information to Payroll are on</p>	<p>Persons emailing the timesheets will be contacted to ensure that if they are not the certifying officer they will copy in the appropriate officer indicating the individual taking responsibility for their accuracy.</p>	Low	Sep 2015	Irene Jackson	<p><b>Implemented:</b></p> <p>Persons who have emailed timesheets to ES In the previous three months have been contacted and advised that these must be either submitted by certified officers or at least copied into them.</p> <p>Our testing on a sample of submitted timesheets confirmed</p>

	the Authorising Signatures List. Administration Assistants do not always copy in the certifying officer to the transmission email.					that all had been submitted or copied into certified officers.
11	There are fields within iTrent which are required to contain key data as if they are left blank, they may not be included in management reports generated, for instance, the "Reporting Manager". A report revealed that a total of 719 employee records did not have data recorded into the "reporting Manager" field as at March 2015. There are other fields within iTrent that if left blank also create the same problem. The payroll staff attempt to obtain the details to complete the fields. Key data fields should not remain incomplete or blank.	All fields which require completion to be included into Management reports will be populated as a matter of urgency. Each month a report is generated which shows the incomplete fields. Payroll staff are tasked with obtaining the relevant details from managers and staff.	Low	Sep 2015	Paul Jones	<p><b>In Progress:</b></p> <p>Action has been taken to send out requests to employees for the required information where they have not completed the details of their Reporting Managers. If ES receive no response this is escalated to Chief Officers.</p> <p>See new Action 1</p>
12	Our tests on the Authorised Signatory List (ASL) revealed that at the time of testing it was not up to date. The electronic copy contained persons having left the Authority and the hard copy required an up to date signature of an employee having changed their name.	The points raised have now been rectified and the ASL is regularly updated. The employee who requires an up to date signature on the hard copy has been contacted. The form for setting up an authorised signatory has also been altered to make it clear to employees that it is their responsibility to inform HR Services of any changes to their details and provide a new sample signature.	Low	Sep 2015	Paul Jones	<p><b>Implemented:</b></p> <p>The electronic version of the ASL has been revised and streamlined. Work is still being undertaken on this prior to it being uploaded to iTrent. All paper copies of the Certification of HR Information Form are now maintained in three alphabetical files.</p> <p>The Certification forms stipulate the responsibility of officers to submit new sample signatures if they change their name.</p> <p>The person requiring a new sample signature has been contacted to submit a new form to ES. This person has been on extended maternity leave.</p> <p>See new Action 4</p>



13	<p>Our testing on a sample of ten requests for access to iTrent during 2014/15 revealed:</p> <ul style="list-style-type: none"> <li>• Requests for access are not always supported by the HR Management Information System Access Request Form;</li> <li>• Not all forms had all the required sections completed;</li> <li>• Not all access forms are the same. Some require the signature of the Head of Service, Line Manager and Authoriser. Some just require the Line Manager and Authoriser.</li> </ul> <p>In some cases the access forms contained the same signature as Line Manager and Authoriser.</p>	<p>Forms for the authorisation of access to iTrent have been developed and therefore varying ways of working have developed over time. An electronic version is being introduced and IT are currently working on this. Forms will be rejected if not fully completed and appropriately authorised.</p>	Low	Dec 2015	Paul Jones	<p><b>Implemented:</b></p> <p>Version 11 HR Management Information System (iTrent) Access Request Form is now on the Infonet. It contains guidance on how to complete it. This form will be rejected by Employment Services if not appropriately completed and authorised.</p> <p>Our testing on access to iTrent requests confirmed that this new form is being used.</p>
14	<p>Our sample of ten employees changing position during the year revealed that officers authorising the New Starter/change in position forms are not always certifying officers on the ASL. One employee did not have a form for the change in position but we were informed that HR are trialling saving managers in certain areas, such as Facilities Services and Leisure, from providing so many forms and allowing the Conditional Offer or Appointment forms to be sufficient.</p>	<p>Managers will ensure that the authorisation of forms for employees changing position within the Authority are at the appropriate level.</p>	Low	Sep 2015	Irene Jackson	<p><b>Implemented:</b></p> <p>Employment Services Assistants have been directed to reject any Changes in Position Forms if they have not been submitted or authorised by a certified officer. We can confirm that our testing on employees changing position from 2/10/15 had been authorised by certified officers.</p>

## 5. Distribution List:

Name	Title	
Helen Stappleton	Chief Officer – People and Resources	
Sharon Carney	Lead HR Business Partner (Accountable Officer)	
John Griffiths	Employment Services Manager	
Paul Jones	Team Leader Data and Systems Support	
Irene Jackson	Team Leader HR	



## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday, 27 January 2016
<b>Report Subject</b>	Risk Management update
<b>Cabinet Member</b>	Cabinet Member for Corporate Management
<b>Report Author</b>	Chief Executive
<b>Type of Report</b>	Operational

### EXECUTIVE SUMMARY

The risk management update addresses 3 areas for the Committee to note and review:

- i) The Improvement Plan 2015/16 was adopted by the Council in June 2015; this report provides an assessment of the strategic risks contained within the Plan at the mid-year monitoring period (September 2015). Risks are being successfully managed with the majority being assessed as moderate (69%) or minor (20%).
- ii) The report also presents the Committee with the Certificate of Compliance awarded by the Auditor General for Wales in relation to the publication of the Annual Performance Report 2014/15 as adopted by the Council in October 2015.
- iii) The principles of the Council's refreshed Risk Management Strategy were endorsed by Audit Committee in June 2015; this report provides a link to the full strategy which is already operational.

### RECOMMENDATIONS

1	To note the mid-year summary of the strategic risks of the Improvement priorities of the Council.
2	To endorse the refreshed risk management strategy.
3	To note the Certificate of Compliance provided by the Auditor General for Wales in relation to the publication of the Annual Performance Report 2014/15.

## REPORT DETAILS

1.00	STRATEGIC RISKS																		
1.01	<p><u>Improvement Priorities – Strategic Risks</u></p> <p>The Council adopted the Improvement Plan for 2015/16 in June 2015. The adoption of the plan and its priorities provides the opportunity to monitor the strategic risks aligned to these priorities and sub priorities; this is done on a quarterly basis by each of the Overview and Scrutiny Committees and reported to Audit Committee at the mid-year point. This mid-year report is to assure the Committee that the risk levels are moving in a positive direction.</p>																		
1.02	<p>The Audit Committee’s role is to ensure that the process and approach for managing risks is robust. As part of this process the Overview and Scrutiny committees have received quarterly progress reports against the Improvement Plan for 2014/15. These have included a template for each risk capturing:</p> <ul style="list-style-type: none"> <li>• the nature of each risk</li> <li>• the gross, net and target RAG status for each risk</li> <li>• current actions already in place to mitigate the risk</li> <li>• further activity to mitigate the risk</li> <li>• risk trend (via arrows)</li> </ul>																		
1.03	<p>A summary of the status of all risks captured in the Improvement Plan is attached at Appendix 1, along with a statement as recorded in September about any major risks which are also reported to Cabinet. An analysis of the current ‘net’ status of the 45 risks measured this quarter of our eight Improvement priorities is shown in Table 1 and shows the positive shift from the initial assessment reported in June 2015 to the mid-year position:</p> <p>Table 1: Comparative assessment</p> <table border="1" data-bbox="432 1417 1273 1644"> <thead> <tr> <th>Net risk status</th> <th>Q1 (Jun '15)</th> <th>Q2 (Sep '15)</th> </tr> </thead> <tbody> <tr> <td><b>Insignificant: 1 (green)</b></td> <td>1 (0.5%)</td> <td>1 (2%)</td> </tr> <tr> <td><b>Minor: 2 (yellow)</b></td> <td>6 (14%)</td> <td>9 (20%)</td> </tr> <tr> <td><b>Moderate: 3 (amber)</b></td> <td>33 (70.5%)</td> <td>31 (69%)</td> </tr> <tr> <td><b>Major : 4 (red)</b></td> <td>7 (15%)</td> <td>4 (9%)</td> </tr> <tr> <td><b>Severe: 5 (black)</b></td> <td>0</td> <td>0</td> </tr> </tbody> </table>	Net risk status	Q1 (Jun '15)	Q2 (Sep '15)	<b>Insignificant: 1 (green)</b>	1 (0.5%)	1 (2%)	<b>Minor: 2 (yellow)</b>	6 (14%)	9 (20%)	<b>Moderate: 3 (amber)</b>	33 (70.5%)	31 (69%)	<b>Major : 4 (red)</b>	7 (15%)	4 (9%)	<b>Severe: 5 (black)</b>	0	0
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<b>Severe: 5 (black)</b>	0	0																	
1.04	<p>In addition the following table provides an analysis of how our risk trends have changed from the initial risk assessment period in June to the mid-year position in September.</p> <p>Table 2: Risk trend positions</p> <table border="1" data-bbox="579 1865 1129 2056"> <thead> <tr> <th>Trend positions</th> <th>Q1 (Jun '15) to Q2 (Sep '15)</th> </tr> </thead> <tbody> <tr> <td><b>Increase</b></td> <td>3</td> </tr> <tr> <td><b>Decrease</b></td> <td>8</td> </tr> <tr> <td><b>Stable</b></td> <td>34</td> </tr> </tbody> </table>	Trend positions	Q1 (Jun '15) to Q2 (Sep '15)	<b>Increase</b>	3	<b>Decrease</b>	8	<b>Stable</b>	34										
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<b>Decrease</b>	8																		
<b>Stable</b>	34																		

1.05	<p><u>Risk Management Strategy</u></p> <p>This Council's risk management approach has been refreshed as endorsed by this Committee in June. The refresh covers a number of specific actions which have been introduced to improve and mature our approach:</p> <ul style="list-style-type: none"> <li>• Enhanced descriptions of risk including an explanation of the impact if the 'risk' was to be realised and become an 'issue' to be dealt with</li> <li>• More sophisticated risk matrix, moving from a 3 x 3 matrix to one of 6 x 4 for likelihood and impact; allowing more options to show how the risk is being reduced or increasing</li> <li>• Improved format to capture both new and emerging risks and also allow for a risk to be 'closed' once it has been mitigated or realised as an issue being dealt with</li> <li>• Incorporating 'risk' more prominently within Council reports.</li> </ul>
1.06	<p>These elements are now operational as can be seen from the analysis of the Improvement Plan and the format of the risks to Cabinet and Committees.</p> <p>The refreshed risk management approach is a response to one of the Proposals for Improvement recommended as part of the Corporate Assessment undertaken by the Wales Audit Office in 2016.</p> <p>The approach has been captured and described in a refreshed Risk Management Strategy, attached as Appendix 2.</p>
1.07	<p>The approach is also integral within the Council's new performance management software solution; CAMMS. CAMMS is an integrated planning, risk management and programme / project management and reporting software. A link for further information about CAMMS is provided at paragraph 6.02 below.</p>
1.08	<p><u>Auditor General for Wales Compliance Certificate</u></p> <p>The council receives two certificates each year from the Auditor General for Wales; the first in respect of discharging his responsibility to audit the publication of the Improvement Plan; and the second to discharge his responsibility to audit the Annual Performance Report.</p>
1.09	<p>The Council has recently received a positive certificate in relation to the latter. No new proposals for improvement or recommendations have been made.</p>
1.10	<p>The Certificate is attached as Appendix 3.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	There are no direct resource implications related to this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	Consultations with Chief Officers, senior managers and both Internal and external audit (Wales Audit Office) have been undertaken whilst addressing various aspects of this report.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>The Council's strategic Improvement priority risks are being effectively managed through the refreshed risk management approach.</p> <p>The risk of non adoption of the risk management approach across all areas of the Council is being reviewed currently by an Internal Audit review.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1: Improvement Plan 2015/16 risks as at September 2015.</p> <p>Appendix 2: Risk Management Strategy</p> <p>Appendix 3: Wales Audit Office: Improvement Plan 2014/15 Certificate of Compliance</p>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01 6.02	<p><a href="#">Improvement Plan 2015/16</a></p> <p><a href="#">Improvement Plan Monitoring Report Q2 - Cabinet Dec 2015</a></p> <p><b>Contact Officer:</b> Karen Armstrong, Policy and Performance Manager  <b>Telephone:</b> 01352 702740  <b>E-mail:</b> <a href="mailto:Karen.armstrong@flintshire.gov.uk">Karen.armstrong@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(1) <b>Improvement Plan:</b> the document which sets out the annual priorities of the Council. It is a requirement of the Local Government (Wales) Measure 2009 to set Improvement Objectives and publish an Improvement Plan.</p> <p>(2) <b>CAMMS:</b> an integrated planning, risk management and programme/project management and reporting system.</p> <p>(3) <b>Wales Audit Office:</b> works to support the Auditor General as the public sector watchdog for Wales. They aim to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.</p> <p>(4) <b>Risk Management</b> - the process of <b>identifying</b> risks, <b>evaluating</b> their potential consequences (<b>impact</b>) and <b>managing</b> them. The aim is to reduce the frequency (<b>likelihood</b>) of risk events occurring (wherever this is possible)</p>

and minimise the severity of their consequences (impact) if they occur. Threats are managed by a process of controlling, transferring or retaining the risk. Opportunities are managed by identifying strategies to maximise the opportunity or reward for the organisation.

(5) **Corporate Assessment** – undertaken once every four years by the Wales Audit Office as a position statement of the capacity and capability of the council to deliver continuous improvement.

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Risk Code	Issue Risk	Responsible Person	Reporting Period	Next Review Date	Initial Risk Assessment	Current Risk Assessment	Risk Trend	Status
<b>Housing</b>								
IP1.1.1R1	Homelessness will remain a growing area of demand due to the current economic climate	Clare Budden - Chief Officer - Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP1.1.1R2	Demand and aspirations for independent living will not be met	Craig Macleod - Development & Resources Manager	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP1.1.1R3	The supply of affordable housing will continue to be insufficient to meet community need	Melville Evans - Strategic Housing and Regeneration Programme (SHARP) Programme Manager	Quarter	31/12/2015	Major (4)	Major (4)	Risk level is decreasing	Open
IP1.1.2R1	The increased work programme to deliver the WHQS will not be met due to the scale of the programme	Clare Budden - Chief Officer - Community and Enterprise	Quarter	31/12/2015	Minor (2)	Moderate (3)	Risk level is increasing	Open
IP1.1.2R2	Council funding for adaptations and home loans will not be sufficient to meet demand	Clare Budden - Chief Officer - Community and Enterprise	Half Year	31/03/2016	Minor (2)	Minor (2)	Risk level remains the same	Open
IP1.1.2R3	Financial assistance available to repair residents' homes is not taken up by residents	Clare Budden - Chief Officer - Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP1.1.2R4	Customer expectations for the timeliness of adaptations undertaken through disabled facilities grants will not be met due to competing demands on resources	Gavin Griffith - Housing Regeneration & Strategy Manager	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open

Risk Code	Issue Risk	Responsible Person	Reporting Period	Next Review Date	Initial Risk Assessment	Current Risk Assessment	Risk Trend	Status
<b>Living Well</b>								
IP2.1.1R1	Service users and carers do not take advantage of community and universal opportunities that would encourage greater independence.	Neil Ayling - Chief Officer - Social Services	Half Year	31/03/2016	Moderate (3)	Minor (2)	Risk level is decreasing	Open
IP2.1.1R2	The quality of care home services will not meet required standards.	Neil Ayling - Chief Officer - Social Services	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP2.1.1R3	Children and vulnerable families are not fully supported where multi-agency services and partners do not move toward an early intervention and prevention approach together.	Neil Ayling - Chief Officer - Social Services	Annual	31/03/2016	Insignificant (1)	Insignificant (1)	Risk level remains the same	Open
IP2.1.2R1	Funding between Health and Council does not transfer smoothly; eg. CHC, ICF, Primary Care funds	Neil Ayling - Chief Officer - Social Services	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level is increasing	Open
IP2.1.2R2	Service provision is not co-ordinated / integrated.	Neil Ayling - Chief Officer - Social Services	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP2.2.1R1	Safeguarding arrangements do not meet the requirements of the SSWB Act.	Neil Ayling - Chief Officer - Social Services	Half Year	31/03/2016	Minor (2)	Minor (2)	Risk level remains the same	Open
IP2.2.1R2	Adults, young people and children are not sufficiently safeguarded.	Neil Ayling - Chief Officer - Social Services	Half Year	31/03/2016	Minor (2)	Minor (2)	Risk level remains the same	Open

Risk Code	Issue Risk	Responsible Person	Reporting Period	Next Review Date	Initial Risk Assessment	Current Risk Assessment	Risk Trend	Status
<b>Economy &amp; Enterprise</b>								
IP3.1.1R1	Some areas within Flintshire will not be covered by superfast broadband if the joint project between Welsh Government and BT stalls.	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level is increasing	Open
IP3.1.1R2	Businesses are not sufficiently supported to maximise opportunities presented to them through major transformational projects within Flintshire.	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP3.1.2R1	Opportunities to access external funding programmes to invest in our urban and rural areas are not maximised.	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP3.1.2R2	Opportunities to access funding to invest in the promotion of tourism are not maximised	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP3.1.2R3	External funding sources are often weighted towards urban regeneration with funding for rural regeneration being limited.	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open

Risk Code	Issue Risk	Responsible Person	Reporting Period	Next Review Date	Initial Risk Assessment	Current Risk Assessment	Risk Trend	Status
<b>Skills &amp; Learning</b>								
IP4.1.1R1	Local employers and learning providers do not work closely enough to identify and meet the skills based needs of the future.	Ian Budd - Chief Officer - Education and Youth	Half Year	31/03/2016	Moderate (3)	Minor (2)	Risk level is decreasing	Open
IP4.1.1R2	Training places will not match current and future employer aspirations and needs.	Ian Budd - Chief Officer - Education and Youth	Half Year	31/03/2016	Moderate (3)	Minor (2)	Risk level is decreasing	Open
IP4.1.2R1	Schools do not receive and/or make best use of the support they need from the Council and GwE	Ian Budd - Chief Officer - Education and Youth	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP4.1.2R2	Numbers of school places will not be sufficient to meet the future demands of changing demographics	Ian Budd - Chief Officer - Education and Youth	Quarter	31/12/2015	Major (4)	Moderate (3)	Risk level is decreasing	Open
IP4.1.2R3	Limited funding to address the backlog of known repair and maintenance works in Education and Youth assets will be further reduced to meet new pressures on the Education and Youth Budgets	Ian Budd - Chief Officer - Education and Youth	Quarter	31/12/2015	Major (4)	Major (4)	Risk level remains the same	Open
<b>Safe Communities</b>								
IP5.1.1R1	Grant funded services that are administered through the Community Safety Partnership are not delivered effectively.	Andrew Farrow - Chief Officer - Planning and Environment	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP5.1.1R2	Funding for the provision of CCTV with local partners will not be sustainable in the long term.	Andrew Farrow - Chief Officer - Planning and Environment	Half Year	31/03/2016	Minor (2)	Minor (2)	Risk level remains the same	Open

Risk Code	Issue Risk	Responsible Person	Reporting Period	Next Review Date	Initial Risk Assessment	Current Risk Assessment	Risk Trend	Status
<b>Poverty</b>								
IP6.1.1R1	Demand for advice and support services will not be met.	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP6.1.1R2	Debt levels will rise if tenants are unable to afford to pay their rent	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP6.1.1R3	The local economy will suffer if residents have less income to spend	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP6.1.1R4	Resources to meet the requirements of the Universal Credit roll-out will not be sufficient	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP6.1.2R1	Residents do not take up the energy efficiency measures as we hope	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP6.1.2R2	Available funding falls short of public demand	Clare Budden - Chief Officer Community and Enterprise	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open

Risk Code	Issue Risk	Responsible Person	Reporting Period	Next Review Date	Initial Risk Assessment	Current Risk Assessment	Risk Trend	Status
<b>Environment</b>								
IP7.1.1R1	Sufficient funding is not found to ensure our highways infrastructure remains safe and capable of supporting economic growth.	Stephen Jones - Chief Officer - Streetscene and Transportation	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP7.1.1R2	Sustainable transport options do not remain attractive to users.	Stephen Jones - Chief Officer - Streetscene and Transportation	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP7.1.1R3	Sufficient funding will not be found to continue to provide subsidised bus services.	Stephen Jones - Chief Officer - Streetscene and Transportation	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP7.2.1R1	Agreement and funding for the renewable energy schemes is not secured.	Andrew Farrow - Chief Officer - Planning and Environment	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP7.2.1R2	Funding for the waste transfer station is not secured.	Stephen Jones - Chief Officer - Streetscene and Transportation	Annual	31/03/2016	Moderate (3)	Not Applicable	Not Applicable	Closed
IP7.2.1R3	Planning approval for the waste transfer station is not secured.	Stephen Jones - Chief Officer - Streetscene and Transportation	Annual	31/03/2016	Moderate (3)	Not Applicable	Not Applicable	Closed
IP7.2.1R4	Recycling programmes are not supported by the public and employees.	Stephen Jones - Chief Officer - Streetscene and Transportation	Quarter	31/03/2016	Moderate (3)	Minor (2)	Risk level is decreasing	Open

Risk Code	Issue Risk	Responsible Person	Reporting Period	Next Review Date	Initial Risk Assessment	Current Risk Assessment	Risk Trend	Status
<b>Modern &amp; Efficient Council</b>								
IP8.1.1R1	The capacity and appetite of the community and social sectors	Ian Bancroft - Chief Officer - Organisational Change 1	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP8.1.1R2	The willingness of the workforce and trade unions to embrace change	Ian Bancroft - Chief Officer - Organisational Change 1	Quarter	31/12/2015	Major (4)	Moderate (3)	Risk level is decreasing	Open
IP8.1.1R3	Market conditions which the new alternative delivery models face	Ian Bancroft - Chief Officer - Organisational Change 1	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP8.1.1R4	Limitations on public funding to subsidise alternative models	Ian Bancroft - Chief Officer - Organisational Change 1	Quarter	31/12/2015	Major (4)	Moderate (3)	Risk level is decreasing	Open
IP8.2.1R1	The scale of the financial challenge.	Helen Stappleton - Chief Officer - People and Resources	Quarter	31/12/2015	Major (4)	Major (4)	Risk level remains the same	Open
IP8.2.1R2	The capacity and capability of the organisation to implement necessary changes	Helen Stappleton - Chief Officer - People and Resources	Quarter	31/12/2015	Major (4)	Major (4)	Risk level remains the same	Open
IP8.2.1R3	The pace of procurement collaborations and our limited control over their development.	Gareth Owens - Chief Officer - Governance	Quarter	31/12/2015	Moderate (3)	Moderate (3)	Risk level remains the same	Open
IP8.2.1R4	Public attitude to accessing services on-line.	Clare Budden - Chief Officer - Community and Enterprise	Half Year	31/03/2016	Minor (2)	Minor (2)	Risk level remains the same	Open

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# FLINTSHIRE COUNTY COUNCIL

## RISK MANAGEMENT POLICY & STRATEGY

VERSION 4

LATEST REVISION: JANUARY 2016

## Table of Contents

<b>Section</b>		<b>Page</b>
	<b>Risk Management Policy Statement</b>	<b>2</b>
	<b>Risk Management Strategy</b>	
1.0	Introduction	4
2.0	Risk as part of the Governance Framework	5
3.0	Why manage risks - The Benefits	6
4.0	How risk fits with Business Planning	6
5.0	Types of Risk	7
6.0	The Risk Process & Procedure	10
7.0	Accountability for Risk	13
8.0	Internal Audit	14
9.0	Improvement Fund	15
<b>Appendices</b>		
A	Risk Template (CAMMS)	16
B	Risk Identification	19
C	Risk Criteria	21
D	Risk Escalation & Review Matrix	23
E	Risk Register	24
F	Glossary of Terms	25

## Flintshire County Council Risk Management Policy Statement

Flintshire County Council's Council's Council (Plan) Governance Framework and Improvement Plan supported by its other key strategies sets out the Council's vision, values and strategic priorities. The Council recognises its duties to its stakeholders including having high standards of governance. As a key component of the Council's Council (Plan) Governance Framework the Council seeks to manage risks effectively so that it can positively contribute to the achievement of its priorities and maximise the opportunities toward achieving its vision, whilst obtaining assurances about the management of those risks.

Effective risk management is essential for both an organisation and its partners to achieve strategic objectives and improve outcomes for local people. The Council promotes the principles of effective risk management throughout the organisation and with its partner organisations. It is committed to the proactive management of key external and internal risks. Effective partnership risk management allows the Council to demonstrate a positive risk culture and improved outcomes, whilst improving its ability to deliver innovative and challenging projects.

The Council's Risk Management Strategy and framework seeks to apply best practice to the identification, assessment and control of key risks, through:

- Adoption of an effective and transparent corporate approach to proactive Risk Management by the Council and the work of key external partners;
- Integration of risk management into the operational and management practices and procedures of the Council to promote a culture of risk awareness; and
- Provision of information to support the Council's Annual Governance Statement (AGS), relating to the effectiveness of the arrangements for risk management and internal control mechanisms in place.

This is achieved by implementing the Risk Management Strategy and supporting framework. The policy statement and strategy will be reviewed periodically as required, to ensure their continued relevance and as part of the Council's ongoing improvement programme. This improves and strengthens governance as well as front-line service delivery throughout the Council.

The Council undertakes to promote and ensure that:

- The management of risk supports (i) the achievement of its strategic and service priorities and (ii) continuous improvement in service delivery and performance.
- There is a commitment to embedding risk management into the Council's culture and organisational processes at all levels including corporate/strategic, programme/project, and operational.
- The senior management team and Members own, lead and support risk management and that ownership and accountability are clearly assigned for the management of risks at all levels throughout the Council.

- All Members and officers recognise the importance of and adopt risk management as a process, by which key risks and opportunities are identified, evaluated, managed and contribute towards good governance. This is reinforced through the delivery of on-going training programmes.
- Effective and transparent monitoring and reporting mechanisms are in place to continuously review the Council's exposure to, and management of, risks and opportunities. The effectiveness of these mechanisms are continually reviewed, updated and improved where opportunities arise.
- Good practice systems for managing risk are used throughout the Council, including mechanisms for monitoring and reviewing effectiveness against agreed standards and targets.
- Accountability to stakeholders is demonstrated through periodic progress reports, internal and external inspections and the Annual Governance Statement.
- The Risk Management Strategy is reviewed and updated in line with the Council's developing needs and requirements.

**1.0 INTRODUCTION**

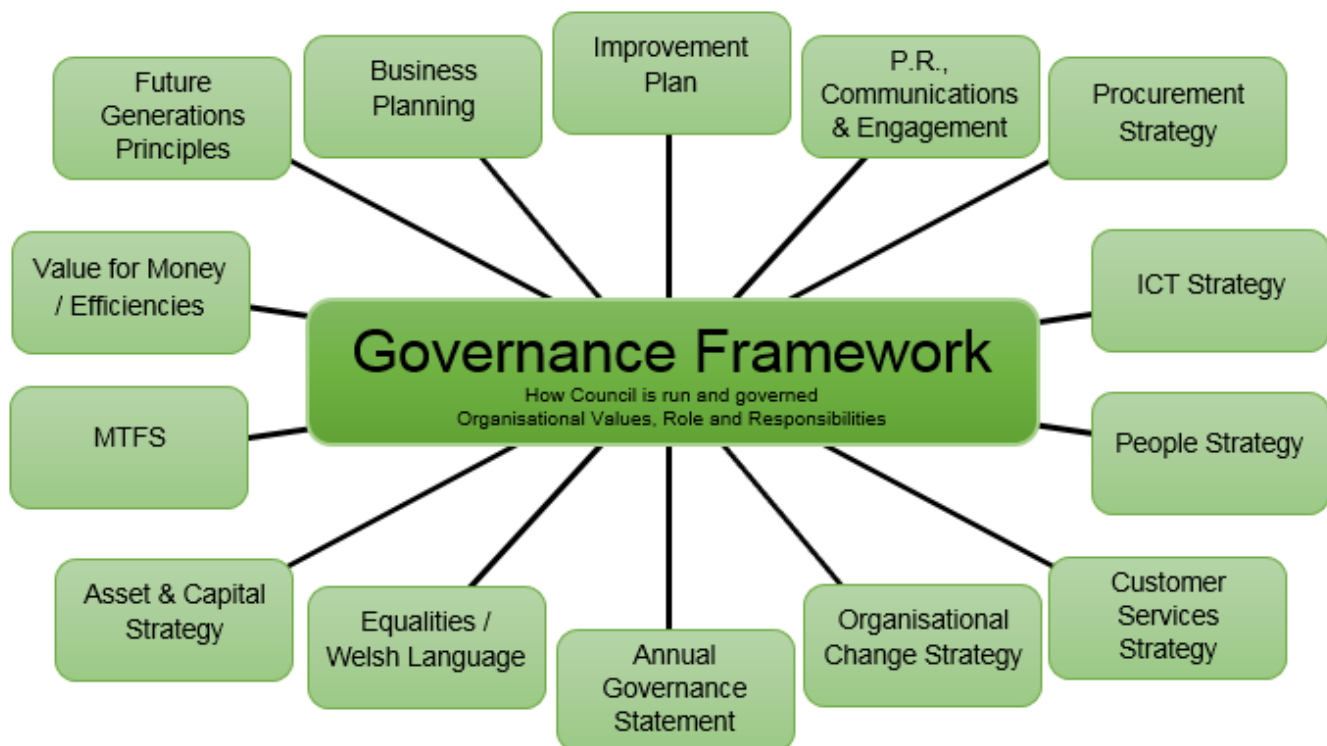
- 1.1 Flintshire County Council recognises the importance of effective identification, evaluation and management of all key corporate/strategic, programme/project, and operational risks. This is endorsed by the increased focus on the importance of Corporate Governance to public sector bodies.
- 1.2 This document (and the related Policy Statement) should be used as a basis to permanently establish and embed risk management as part of the management toolkit, which supports the delivery of quality customer focused services within a robust and transparent framework of corporate governance. All elected Members and each employee of the Council has both a responsibility for and a contribution to make in terms of risk management
- 1.3 This document also provides guidance to all staff on the management of risk and aims to:
- set out the respective responsibilities for risk management throughout the organisation; and
  - describe the framework to be followed in identifying, assessing and managing risks.
- 1.4 **What is Risk?** It can be a threat (negative) or an opportunity (positive). A threat is an event or action that will adversely affect an organisation's ability to achieve its stated objectives and to successfully deliver approved strategies. An opportunity is an event or action that will enhance the organisation's ability to achieve its objectives and deliver approved strategies, whether these be short term or long term. This will include both external and internal risks and opportunities.
- 1.5 **Risk Management** is the process of **identifying** risks, **evaluating** their potential consequences (impact) and **managing** them. The aim is to reduce the frequency (likelihood) of risk events occurring (wherever this is possible) and minimise the severity of their consequences (impact) if they occur. Threats are managed by a process of controlling, transferring or retaining the risk. Opportunities are managed by identifying strategies to maximise the opportunity or reward for the organisation.
- 1.6 Risk management covers the whole spectrum of risks and not just those associated with finance, health & safety, business continuity and insurance. It also includes risks associated with: service provision, effectiveness and continuity; public image (reputation); compliance with legislation; and environment.
- 1.7 Not all risk can be eliminated but it is vital that risks are recognised and recorded and that their potential to cause loss is fully understood, some risks are external to us, e.g. the impact of other partners' actions or those of governing bodies. Based on this

information, action can be taken to direct appropriate levels of resource at controlling the risk or minimising the effect of potential loss.

- 1.8 Risk management is not about being 'risk averse', it is about being 'risk aware'. Many people see risk management as an inherently negative process. Risk management should be seen as a process that allows us to take risk but in a calculated and controlled manner; it is about being in a better position to avoid threats and making the most of opportunities to achieve objectives.

## 2.0 **RISK AS PART OF THE GOVERNANCE FRAMEWORK**

- 2.1 Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities. It is founded on the principles of openness and inclusiveness, integrity and accountability together with the overarching concept of leadership. It is an interrelated system that brings together the underlying set of legislative requirements, governance principles and management processes.
- 2.2 Risk Management is an integral part of the Council's governance framework and is evident within its key strategies and plans. It aids informed and transparent decision making by ensuring that risk management is embedded into the culture of the Council, with Members and officers at all levels recognising that risk management is integral to service delivery and good governance. Managing risks effectively makes a positive contribution towards enabling the achievement of the Council's priorities and maximising the opportunities to achieve its vision.



2.3 Risk management is part of the Council's system of internal control assisting in the management and achievement of its priorities.

### **3.0 WHY MANAGE RISKS – THE BENEFITS**

3.1 Effective Risk Management will deliver a number of benefits to individual services and to the Council as a whole. These can vary in their nature and extent from service to service. However, they are important to the Council's reputation and to its ability to deliver continuous improvement.

3.2 Benefits of managing risk effectively are both tangible and intangible and include:

- Improved strategic, operational and financial management
- Improved business planning
- Prioritisation of resources
- Increased support and justification for the decision making process
- Effective performance and achievement of priorities
- Improved corporate governance and control systems
- Improved customer service
- Enhanced reputation and public confidence

3.3 The Risk Management Strategy assists in linking risk management, service planning (including business continuity planning), performance management, prioritisation and resource allocation.

### **4.0 HOW RISK FITS – AS PART OF BUSINESS PLANNING**

4.1 The Council's Improvement Plan identifies the in-year priorities for focus and delivery. These priorities are referenced within relevant strategies (e.g. Medium Term Financial Strategy, School Improvement and Modernisation Strategy) and plans e.g. (e.g. Business Plans<sup>1</sup>, Portfolio/Service Plans) which are reviewed and refreshed periodically and to inform on-going budget planning.

4.2 The priorities within the Improvement Plan are clearly described as are the strategic risks associated with each priority. The detail relating to each risk is held within the performance management system (CAMMS). See example at Appendix A. The CAMMS system is also used to record mitigating actions and progress made against them as well as periodic re-assessment to determine the current level of risk and establish if the mitigation is working as expected.

4.3 Predominately the focus is what needs to be achieved in-year, however plans increasingly have longer term considerations such as financial impacts, sustainability of services, business continuity and longer term performance and improvement commitments and projects.

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<sup>1</sup> See Glossary of Terms at Appendix F for more detail

4.4 The core components of business planning are:

- **Customers** – Who are they and what are their expectations?
- **Priorities & Planning** – What are the priorities for the service and how will they be delivered?
- **Risk** – What are the risks organisation / service and how will these be mitigated?
- **Performance** – How has the organisation / service performed in the last year? Where should improvements be concentrated?
- **Resources and Efficiencies** – What resources are available to the organisation / service and how are these best deployed to deliver the priorities? What efficiencies can the organisation / service deploy?
- **Regulatory Findings** – What have regulators / inspections revealed about the organisation / service and how are improvement recommendations to be remedied?
- **Business Continuity** – Which elements of the service are critical and must be continued in the event of an emergency?

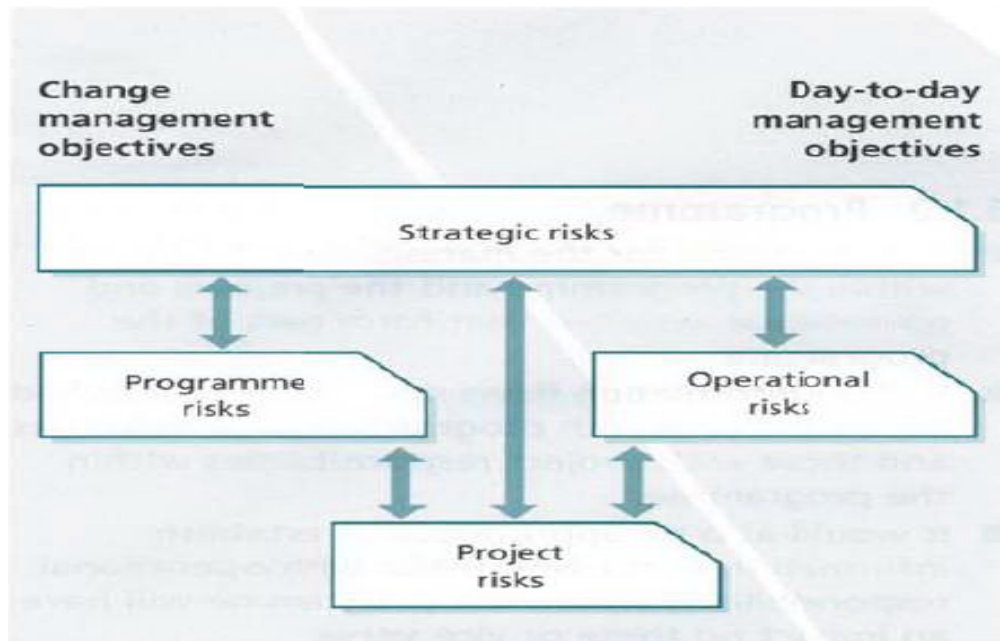
## 5.0 **TYPES OF RISK**

5.1 There are various types of risk but it is important to recognise that, for all categories, the direct financial losses may have less impact than the indirect costs consequences such as the impact on the Council's ability to deliver its priorities, the disruption of normal working and adverse staff morale.

The main risk types are identified as:

- Strategic / Corporate Risk
- Operational Risk
- Programme / Project Risk
- Business Continuity Risk (predominantly operational risks)
- Partnership Risk (for partnership risks all the aforementioned types of risk are applicable).





Source: OCG Management of Risk (MoR): Guidance for Practitioners

- 5.2 **Strategic / Corporate Risk** - are those that have the potential to impact the ambitions and priorities of the Council. The Council has identified and evaluated its strategic risks and these are evident within the Council's Improvement Plan.
- 5.3 As part of the Improvement Plan monitoring arrangements all risks are reviewed in accordance with the escalation and review matrix (Appendix D) to reflect changing circumstances and progress with mitigation, taking into account:
- Progress made towards mitigation of the risk
  - RAG Status (initial and current assessments)
  - Risk Status (remaining open or closed)
  - Emerging / new risks
  - External threats and opportunities
  - Changing circumstances / environment
- 5.4 An example of a strategic risk from the Improvement Plan is attached at Appendix A.
- 5.5 **Operational Risk** - are risks that affect the successful delivery of individual service objectives. They are in effect 'business as usual' priorities and can include for example; malfunctioning equipment, hazards to service users, the general public or employees, damage to property etc. Operational risk also includes insurance claims and higher insurance premiums.
- 5.6 Operational risks are to be identified in relevant plans and monitored in accordance with the escalation and review matrix (Appendix D). Operational risks are also recorded in CAMMS recording the same detail as in the example strategic risk at Appendix A.

- 5.7 Not all risks are insurable and for some the premiums may not be cost-effective. Even where insurance is available, money may not be an adequate recompense. The emphasis should always be on eliminating or minimising risk, before costly steps to transfer risk to another party (insurance) are considered.
- 5.8 It should be noted that some risk is unavoidable and it is not within the ability of the organisation to completely mitigate it – for example a risk arising from the actions of other agencies or weather events. In such cases the organisation needs to make contingency plans for business continuity.
- 5.9 **Business Continuity** - The Civil Contingencies Act requires Category 1 responders, to maintain plans to ensure that they can continue to perform their functions in the event of an emergency. Flintshire County Council is a category 1 responder.
- 5.10 Business Continuity Management (BCM) is a planned process aimed at managing the many varied operational risks inherent in the day to day activities involved in the delivery of service.
- 5.11 The Council has in place Portfolio Business Continuity plans to ensure critical services can still be delivered in the event of an emergency. They have been developed to complement the overall risk arrangements, help maintain critical services during and after any major emergency and promote recovery.
- 5.12 Corporate Business Continuity Plans (such as assets and ICT) provide an overall framework within which the Business Continuity Plans operate. Overall strategic responsibility for ensuring that services are maintained is the responsibility of the Council's Chief Officer Team.
- 5.13 Continuity risks that are identified in risk assessments are incorporated into relevant Business Continuity Plans and managed within the risk management process.
- 5.14 The Business Continuity programme includes periodic testing and revision of the Corporate Business Continuity Plans and/or the Portfolio Business Continuity Plans on a periodic basis. When any of the plans are invoked; for example during severe weather, debriefs to determine lessons learned and plan revisions are held as good practice.
- 5.15 **Programme / Project Risk** - Some amount of risk taking is inevitable if a programme / project is to achieve its objectives. The aim is to manage that exposure by taking action to keep exposure to an acceptable level in a cost effective way, whilst maximising any opportunities presented.
- 5.16 All programmes / projects are subject to constant change within the Council and wider environment. The priorities of programmes / projects can shift and change and as they do the relative importance of risks will also change. Assumptions about risk are to be

regularly revisited and reconsidered. See the Escalation and Review Matrix at Appendix D.

- 5.17 The Council has adopted a standard project management approach. This approach incorporates the identification and monitoring of risk. The Project Manager is responsible for ensuring that risks are identified, recorded and regularly reviewed and should modify plans to include agreed actions to avoid or reduce the impact of risk. Risk is reported to the Project Board who in turn present this information to the Chief Officer Team, Programme Board (by exception) or Cabinet as appropriate.
- 5.18 **Partnership Risk** - The Council has many different types of partnership arrangements to which risk management needs to be applied but the main two types are strategic partnerships and collaborative partnerships.
- 5.19 Our **strategic partnerships** relate to the Public Service Board<sup>2</sup> (e.g. Health, Wellbeing and Independence Board and People are Safe Board) and review their risks on a regular basis. A Governance Framework for Strategic Partnerships has been developed which incorporates risk review and which is reported at least annually to the Public Service Board.
- 5.20 Partnership boards ensure that effective risk assessment is undertaken in all key decision making processes, and where necessary, the partnership implements risk management plans to alleviate these identified risks, setting clear deadlines and allocating responsible individuals for particular tasks.
- 5.21 Other partnerships result from **collaborative activity**. Flintshire is committed to working in collaboration on a number of projects and service areas not only with local authorities but across public sector organisations. There are a number of significant collaboration projects underway in the region e.g. North Wales Residual Waste Treatment and all those led by Flintshire County Council have risk management processes in place as part of their governance arrangements.

## **6.0 THE RISK PROCESS & PROCEDURE**

- 6.1 **Identification** – Risks can be identified in a number of ways ranging from undertaking business and project planning activities through to identification during day to day operational activities.
- 6.2 A checklist for identification of possible risks is included with examples at Appendix B, it should however be noted that this list is not exhaustive and should be used to promote discussion and to aid risk identification.

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<sup>2</sup> Public Service Boards are statutory as from 01.04.16 and replace the Local Service Boards.

6.3 Identified risks are entered onto the CAMMS system as a strategic, operational or project risk (see screenshots at Appendix A), including:

- Risk Title – the area of uncertainty in terms of the threat or opportunity i.e. “As a result of .... *trigger...*, there is a threat/opportunity of ....*event/area of uncertainty...* which could lead to..... *effect/impact...*”
- Risk Trigger – the event or situation that will give rise to the risk but in a little more detail than in the title to give context
- Potential Effects – the impact the risk will have should it materialise, again this should be in a little more detail than in the title to give context
- Management Controls – the management controls already in place that will help to mitigate / control the risk
- Risk Category – any of the following, selecting one as ‘primary’ and if applicable any others as ‘secondary’:

Risk Category	Primary	Secondary
Collaboration	<input type="radio"/>	<input type="checkbox"/>
Community Support	<input type="radio"/>	<input type="checkbox"/>
Democratic Governance	<input type="radio"/>	<input type="checkbox"/>
Legislative Policy Change	<input type="radio"/>	<input type="checkbox"/>
Organisational Resilience	<input type="radio"/>	<input type="checkbox"/>
Resources	<input type="radio"/>	<input type="checkbox"/>
Service Demands	<input type="radio"/>	<input type="checkbox"/>
Technology	<input type="radio"/>	<input type="checkbox"/>

6.4 Having identified the risk the next phase is to evaluate it. **Evaluation** is measured using ‘**Likelihood**’ and ‘**Impact**’ to identify the ‘level’ of risk (initial assessment). A 4 x 6 matrix is used to plot the impact score against the likelihood score to provide a ‘level’ of risk (see matrix overleaf). Use of the matrix will determine the level of risk within one of five bandings, ranging from severe (black), major (red), moderate (amber), minor (yellow) and insignificant (green). Criteria for assessing likelihood and impact are included at Appendix C to help promote consistent risk evaluation across the Council.

6.5 Where impact and likelihood cross determines the risk level. For example, a risk assessed as critical impact with a significant likelihood equates to a major (red) risk. A risk assessed as negligible impact with a low likelihood equates to a minor (yellow) risk etc.

6.6 Using the risk “RAG” rating, risks and issues can be ranked so that the most severe are addressed first. Decisions can then be made as to what mitigating action can be taken to alleviate the risk.

### Risk Likelihood and Impact Matrix

Impact Severity	Catastrophic	Y	A	R	R	B	B
	Critical	Y	A	A	R	R	R
	Marginal	G	Y	A	A	A	R
	Negligible	G	G	Y	Y	A	A
		Unlikely (5%)	Very Low (15%)	Low (30%)	Significant (50%)	Very High (65%)	Extremely High (80%)
Likelihood & Percentage of risk happening							

6.7 The following details are also recorded:

- Type – Strength, Weakness, Opportunity or Treat (predominantly it will be 'opportunity' or 'threat').
- Date the risk was identified
- Risk identifier

6.8 **Managing** - Most risks cannot be eliminated altogether and risk management involves making judgements about what level of risk is acceptable. There are four categories of response to risks – treat, tolerate, transfer, terminate – known as the Four T's. In addition, not all risks can be mitigated to an insignificant (green) level and may be tolerated at a moderate (amber) or minor (yellow) level.

6.9 Actions determined to mitigate the risk to at least a tolerable level are determined and recorded in the CAMMS system, assigning responsibility and planned start and end dates.

6.10 **Review** – Progress of the actions and risk level is periodically monitored in accordance with the Risk Escalation and Review matrix (Appendix D) using the CAMMS system. The frequency of review of risks and level at which they are reviewed depends on the type and level of the risk.

6.11 As part of the regular review the risk owner/updater will undertake a new assessment of the risk level considering the 'Likelihood' and 'Impact' given progress made with mitigating actions and changes in the internal or external environments (e.g. legislative changes). As part of the review the owner/updater provides commentary to give context to the current assessment and state whether the risk is still 'open' or if its been 'closed' (no longer a risk). Where the risk is still open the 'trend' will also be identified:

- **Risk Level is Increasing** - mitigating actions have not been completed to timescale and/or the predictive amber/green RAG status has not been achieved by the notified date, or is an increased risk as a result of a change in risk circumstance.
- **Risk Level remains the same** – mitigating actions are being progressed but no change has been effected to the overall risk.
- **Risk Level is Decreasing** - mitigating actions have been completed in advance or to timescale and/or the predictive amber/green RAG status has been achieved, or a decreased risk as a result of a change in risk circumstance.

6.12 Risk Registers are used to capture and maintain information on all identified risks (threats and opportunities). They provide an ongoing log, capture emerging risks and record the closure or escalation of risks. Within the CAMMS system the three risk registers are:

- **Strategic** – used to capture strategic and corporate risks (example at Appendix E)
- **Operational** – used to capture operations and most business continuity risks
- **Project** – captures both programme and project risks

## **7.0 ACCOUNTABILITY FOR RISK**

7.1 The basic requirements of the Risk Management structure are:

- Chief Officer Team leading the process.
- Ownership at every level and by every employee.
- Defined allocation of responsibilities and strong reporting lines.
- Risk identification evaluation and assessment.
- Mechanism for prioritisation.
- Active involvement by elected members.
- A monitoring role.

7.2 **Chief Officer Team** is responsible for:

- Setting strategic risk management initiatives/projects
- Discussing the appropriate level of risk for the Council
- Challenging the outcomes of risk management
- Monitoring and reviewing the Improvement Plan
- Assurance of Business Continuity Planning

- Assessing significant levels of Project risks

### 7.3 **Role of Elected Members**

- **Audit Committee** is responsible for reviewing the effectiveness of the Council's Risk Management processes and systems.
- **Scrutiny Committees** are responsible for challenging the detail of individual risks related to priorities or service/functions.

### 7.4 **Role of Officers**

It is the responsibility of Chief Officers and Performance Leads to ensure that Risk Management is implemented effectively in their areas.

Specific responsibilities are:

- Implementation of Risk Management Strategy and related policies.
- Ensuring that continuous risk identification and evaluation takes place and that action plans are developed, implemented and subjected to regular monitoring and review.
- Ensuring that all risks are updated in line with the Council's business planning and risk management arrangements.

### 7.5 **Service Managers** are responsible for:

- Informing Chief Officers and completing relevant risk assessments.
- Sharing relevant information with colleagues in other service areas.
- Providing feedback on their experience of strategy implementation and perceptions of strategy effectiveness to the senior management team.

### 7.6 **All staff** have a responsibility to:

- Maintain an awareness of risk factors in their workplace.
- Comply with Council policies and procedures.
- Notify their line manager of identified risk and suggested solutions.
- Report all incidents to their manager/supervisor.

## 8.0 **INTERNAL AUDIT**

### 8.1 It is the responsibility of Internal Audit to:

- Develop an annual risk based plan.

- Assess the effectiveness of Risk Management/Business Continuity within the Council with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice.

## **9.0 IMPROVEMENT FUND**

- 9.1 The Council maintains a Risk Management Improvement Fund (RMIF) which provides a source of finance to fund Risk Management initiatives which are deemed to be of benefit to the Council. The RMIF is held centrally by the Corporate Finance Manager as part of the Council's Internal Insurance Fund.
- 9.2 In addition to being subject to the 50% matched funding principle all RMIF funding should satisfy the following criteria (funding for up to 100% will be considered in exceptional circumstances):
- The initiative should raise the awareness of Risk Management; and/or
  - The initiative should help to reduce the level and cost of insurance claims against the Council and protect the Council's Internal Insurance Fund.
- 9.3 The general principle of RMIF funding is that it will only be made available for the cost of "one off" initiatives and is not intended to be used to fund routine maintenance or supplement budget shortfalls.



# Strategic Risk Register Example - Initial Assessment

Strategic Risk

Initial Risk Assessment | Current Risk Assessment | Risk Review | Documents | Links

Risk Reference: IP6.1.1R2 **Apply Template**  Active

Risk Title: Debt levels will rise if tenants are unable to afford to pay their rent

Responsibility Centre: **Select**

Lead Officer: Clare Budden - Chief Officer - Community and Enterprise

Supporting Officers	
Katie Clubb	[Delete]
Paul Neave	[Delete]
-- Please Select --	[Add]

Risk Trigger: There may be diminished capability to manage FCC rent arrears levels downwards if FCC tenants needing advice exceeds the caseload capacity (225 cases pa) of the Neighbourhood Housing Service income maximisation caseworker.

Potential Effects: Rent arrears levels amongst FCC tenants will increase if they are not able to implement strategies to manage the impact generated by the reduction in their Housing Benefit award. Any reduction in income to the Housing Revenue Account negatively affects the Housing Service Business model.

Management Controls: Continue the proactive response to FCC tenants impacted by the spare room subsidy ensuring they are supported to remain in, or move from their property, lessening the negative impact on the Housing Revenue Account and the risk of homelessness.

Legislation: Housing (Wales) Act 2014

Initial Assessment

Criteria	Selection
* Likelihood L	Significant [Copy]
* Impact C	Marginal [Copy] Community Support [Copy]

Type: Threat

Risk Rating: **Amber**  
Moderate (3)

Risk Category	Primary	Secondary
Collaboration	<input type="radio"/>	<input type="checkbox"/>
Community Support	<input checked="" type="radio"/>	<input type="checkbox"/>
Democratic Governance	<input type="radio"/>	<input type="checkbox"/>
Legislative Policy Change	<input type="radio"/>	<input type="checkbox"/>
Organisational Resilience	<input type="radio"/>	<input checked="" type="checkbox"/>
Resources	<input type="radio"/>	<input checked="" type="checkbox"/>
Service Demands	<input type="radio"/>	<input checked="" type="checkbox"/>
Technology	<input type="radio"/>	<input type="checkbox"/>

Page 65

# Strategic Risk Register Example - Current Assessment

## Strategic Risk

- Initial Risk Assessment
- Current Risk Assessment
- Risk Review
- Documents
- Links

Risk Title: Debt levels will rise if tenants are unable to afford to pay their rent

**Potential Effects:** Rent arrears levels amongst FCC tenants will increase if they are not able to implement strategies to manage the impact generated by the reduction in their Housing Benefit award. Any reduction in income to the Housing Revenue Account negatively affects the Housing Service Business model.  
 Increase in court action for possession being taken against social housing tenants, particularly those with existing rent arrears which are worsened by the spare room subsidy. This will create additional financial pressures upon the fulfilment of FCC statutory

**Management Controls:** Continue the proactive response to FCC tenants impacted by the spare room subsidy ensuring they are supported to remain in, or move from their property, lessening the negative impact on the Housing Revenue Account and the risk of homelessness.  
 FCC funding a personal budgeting support service (delivered by the CAB) for Universal Credit claimants who experience problems managing their single monthly UC payment, including their housing costs.  
 FCC continuing to provide advice and support services helping Flintshire households maximise their income through accessing social security benefits & better managing their financial commitments.

### Current Assessment


Criteria	Selection
* Likelihood L	Significant
* Impact C	Marginal Community Support
* Risk Status RS	Open
* Risk Trend RT	Risk Level remains the same

Risk Rating: **Amber**  
 Moderate (3)

Actions	Lead Officer	Service	Start Date	End Date	Reporting Frequency	Action Status	% Completed
	-- Please Select --	-- Please Select --			-- Please Select --	-- Please Select --	%

Links to Strategic/Business Plans
<a href="#">6 Poverty</a>
<a href="#">6.1 Protecting people from poverty</a>
<a href="#">6.1.1 Maximising Income</a>

# Strategic Risk Register Example – Risk Review

Integrated Risk Manager  
A CAMMS SOLUTION

WORKSPACE | FRAMEWORK | RISK MANAGEMENT | AUDIT MANAGEMENT | QUICK SEARCH | REPORTS | ADMINISTRATION

Strategic Risk

Initial Risk Assessment | Current Risk Assessment | Risk Review | Documents | Links

**Risk Review Info**

Review Frequency:

Last Reviewed By: Paul Neave - Manager - Advice and Homelessness Service

Last Reviewed Date: 29/10/2015

Next Review Date:

Lead / Supporting Officer

Comments

**B** *I* U abc [List Icons] Real... ABC

The progressive rollout of Universal Credit is restricting claims to single people who tend not to be responsible for housing costs. Therefore, the personal budgeting service funded by FCC is coping with the demand for support from UC claimants, who are householders, and do need advice and support to manage their monthly UC payment, including having their rent paid directly to their landlord. Due to the continued safe and secure implementation of Universal Credit (UC) by the DWP the number of tenants within Flintshire who are claiming UC remains low and the personal budgeting service, delivered

Design HTML Preview Words: 168 Characters: 1035

Notes

**B** *I* U abc [List Icons] Real... ABC

Design HTML Preview Words: 0 Characters: 0

**Complete** **Add to Improvement / Service Plan**

**Appendix B**  
**Checklist for Risk Identification**

<b>Examples</b>		
<b>P</b>	<b>Political</b>	<ul style="list-style-type: none"> <li>- Member support</li> <li>- Local/General election changes</li> <li>- Community Leadership</li> <li>- Democratic Governance/Management</li> <li>- National Policy change</li> </ul>
<b>E</b>	<b>Environmental</b>	<ul style="list-style-type: none"> <li>- Recycling / Green issues</li> <li>- Energy efficiency, Pollution, Carbon emissions</li> <li>- Climate Change; flooding and adaptation</li> <li>- Land use</li> <li>- Waste Strategy</li> </ul>
<b>R</b>	<b>Regulatory / Legislative</b>	<ul style="list-style-type: none"> <li>- Non-compliance with legislation</li> <li>- Data Protection/Freedom of Information Acts/ Human rights,</li> <li>- TUPE regulations</li> <li>- Health &amp; Safety</li> <li>- Legal challenges</li> <li>- Corporate Governance</li> </ul>
<b>F</b>	<b>Financial</b>	<ul style="list-style-type: none"> <li>- Financial performance and management</li> <li>- Efficiencies</li> <li>- Financial procedural rules</li> <li>- Ability to meet financial commitments, including internal budgetary pressures</li> <li>- Insurance cover/claims</li> <li>- Procurement</li> <li>- Contract standing orders</li> </ul>
<b>O</b>	<b>Objectives</b>	<ul style="list-style-type: none"> <li>- Council priorities for change and improvement</li> </ul>
<b>R</b>	<b>Reputational</b>	<ul style="list-style-type: none"> <li>- Negative publicity</li> <li>- Legal challenges</li> <li>- Project failure</li> <li>- External regulatory reports</li> </ul>
<b>M</b>	<b>Management</b>	<ul style="list-style-type: none"> <li>- Strategic – Corporate and resource management</li> <li>- Operational – Management skills to include Performance, Risk, Finance HR etc</li> <li>- Collaborative working/partnerships</li> <li>- Emergency Planning</li> </ul>
<b>A</b>	<b>Assets</b>	<ul style="list-style-type: none"> <li>- Land, property, equipment, technology, information, employees</li> </ul>
<b>N</b>	<b>Not covered elsewhere</b>	<ul style="list-style-type: none"> <li>- Risks that do not fit into any other defined category</li> </ul>

<b>C</b>	<b>Customer and Communities</b>	<ul style="list-style-type: none"> <li>- Impact on customer</li> <li>- Consultation/engagement/communication</li> <li>- Customer Feedback</li> <li>- Current and changing needs and expectations of customers and citizens</li> <li>- Demographics; Migration and immigration</li> <li>- Community cohesion</li> <li>- Community Strategy</li> <li>- Business Continuity Management (including disaster recovery arrangements)</li> </ul>
<b>E</b>	<b>Equalities</b>	<ul style="list-style-type: none"> <li>- Welsh Language</li> <li>- Social Justice</li> <li>- Disability Discrimination Act</li> <li>- Race Relations</li> <li>- Age and Gender</li> <li>- Equality Impact assessments</li> </ul>
<b>S</b>	<b>Sustainability</b>	<ul style="list-style-type: none"> <li>- Maintaining and improving Flintshire as a place to live, work and visit now and in the future.</li> </ul>

## RISK CRITERIA

## Criteria for assessing likelihood

<b>Unlikely (5%)</b>	<b>Very Low (15%)</b>	<b>Low (30%)</b>	<b>Significant (50%)</b>	<b>Very High (65%)</b>	<b>Extremely High (80%)</b>
<b>Likelihood &amp; Percentage of risk happening</b>					

## Criteria for assessing Impact

Description	Examples
<b>Catastrophic</b>	<ul style="list-style-type: none"> <li>• No confidence in Senior Management / Leadership</li> <li>• Formal WG intervention/exercise of their powers</li> <li>• Multiple fatalities</li> <li>• Complete/critical service failure</li> <li>• Exceedingly negative <i>national</i> publicity</li> <li>• Serious impact on workforce across more than one Portfolio</li> <li>• Legal action almost certain, unable to defend</li> <li>• Serious financial impact to budget, not manageable within existing funds and may impact on reserves</li> <li>• Non-compliance with law resulting in imprisonment</li> </ul>
<b>Critical</b>	<ul style="list-style-type: none"> <li>• Limited confidence in Senior Management/Leadership</li> <li>• Significant service failure</li> <li>• Negative <i>national</i> publicity</li> <li>• Impact on workforce across more than one Portfolio</li> <li>• Legal action almost certain and difficult to defend</li> <li>• Serious financial impact to budget, manageable across the authority</li> <li>• Negative external regulatory reports impacting on Corporate Governance</li> <li>• Single fatality</li> </ul>
<b>Marginal</b>	<ul style="list-style-type: none"> <li>• Significant service under performance</li> <li>• Negative <i>local</i> publicity</li> <li>• Expected impact on workforce, but manageable within Portfolio contingency arrangements</li> <li>• Legal action expected</li> <li>• Expected financial impact to budget, manageable within Portfolio</li> <li>• Non-compliance with law resulting in fines</li> <li>• Negative external regulatory reports</li> <li>• Extensive, permanent/long term injury or long term sickness</li> </ul>

**Negligible**

- Some risk to normal service delivery but manageable within contingency arrangements
- Legal action possible but unlikely and defensible
- Possible financial impact to budget, manageable within service
- Non-compliance with regulations / standards or local procedures resulting in disciplinary action
- First Aid or medical treatment required
- Previous risk mitigated by completed action plan

**Risk Escalation & Review Matrix**

Risk Exposure	Impact / Likelihood	Risk Appetite / Control	Risk Monitoring and Management Responsibility:				
			Strategic / Corporate Risk	Service / Operational Risk	Programme Risk	Project Risk	Partnership Risk
<b>Severe (B)</b>	Catastrophic consequences, almost certain to happen.	Unacceptable level of risk exposure which requires immediate corrective action to be taken. Regular monitoring required; at least monthly.	Chief Officer Team	Chief Officer with Portfolio Senior Management Team	Programme Board, Chief Officer Team	Project Board	Partnership Board, LSB & Chief Officer Team
<b>Major (R)</b>	Major consequences, likely to happen.	Unacceptable level of risk exposure which requires regular active monitoring (at least quarterly) and measures to be put in place to reduce exposure.	Chief Officer Team	Chief Officer with Portfolio Senior Management Team	Project Board	Project Sponsor & Project Manager	Partnership Board
<b>Moderate (A)</b>	Moderate consequences, possible occurrence.	Acceptable level of risk exposure subject to regular active monitoring measures; at least quarterly.	Relevant Chief Officer(s) with Portfolio Senior Management Team(s)	Service / Operational Senior Manager(s)	Project Sponsor / Lead Officer	Project Manager	Partnership Board
<b>Minor (Y)</b>	Minor consequences, unlikely to happen.	Acceptable level of risk subject to regular passive monitoring measures; at least half yearly.	Relevant Senior Manager	Service / Operational Team Leader	Nominated Officer from the Project Team	Nominated Project Team Member	Nominated Officer from the Partnership Board
<b>Insignificant (G)</b>	Insignificant consequences, almost very unlikely to happen.	Acceptable level of risk subject to periodic passive monitoring measures; at least annually.	Service / Operational Team Leader	Service / Operational Team Leader	Nominated Officer from the Project Team	Nominated Project Team Member	Nominated Officer from the Partnership Board



Screenshot from the Strategic Risk Register

Integrated Risk Manager | A CAMMS SOLUTION

WORKSPACE | FRAMEWORK | RISK MANAGEMENT | AUDIT MANAGEMENT | QUICK SEARCH | REPORTS | AI

My Quick Update | Risk Register | Executive Intelligence | Welcome Vicki Roberts  
Performance Team Leader

Risk Analysis | Audit | My Settings

Strategic Risk Register | Operational Risk Register | Project Risk Register

Drag a column header and drop it here to group by that column

Risk Reference	Risk Title	Lead Officer	Responsibility Centre	Reporting Period	Next Review Date	Initial Risk	Current Risk	Status
IP1.1.1R1	<u>Homelessness will remain a growing area of demand due to the current economic climate</u>	Clare Budden - Chief Officer - Community and Enterprise	N/A	Quarter	26/02/2016	Amber Moderate (3)	Amber Moderate (3)	Active
IP1.1.1R2	<u>Demand and aspirations for independent living will not be met</u>	Craig Macleod - Development & Resources Manager	[SS] Development and Resources	Quarter	1/03/2016	Amber Moderate (3)	Amber Moderate (3)	Active
IP1.1.1R3	<u>The supply of affordable housing will continue to be insufficient to meet community need</u>	Melville Evans - Strategic Housing and Regeneration Programme (SHARP) Programme Manager	[CE] Housing Services	Quarter	1/03/2016	Red Major (4)	Red Major (4)	Active
IP1.1.2R1	<u>The increased work programme to deliver the WHQS will not be met due to the scale of the programme</u>	Clare Budden - Chief Officer - Community and Enterprise	N/A	Quarter	13/04/2016	Yellow Minor (2)	Amber Moderate (3)	Active
IP1.1.2R2	<u>Council funding for adaptations and home loans will not be sufficient to meet demand</u>	Clare Budden - Chief Officer - Community and Enterprise	N/A	Half Year	30/04/2016	Yellow Minor (2)	Yellow Minor (2)	Active
IP1.1.2R3	<u>Financial assistance available to repair residents' homes is not taken up by residents</u>	Clare Budden - Chief Officer - Community and Enterprise	N/A	Quarter	31/12/2015	Amber Moderate (3)	Amber Moderate (3)	Active
IP1.1.2R4	<u>Customer expectations for the timeliness of adaptations undertaken through disabled facilities grants will not be met due to competing demands on resources</u>	Gavin Griffith - Housing Regeneration & Strategy Manager	N/A	Quarter	31/12/2015	Amber Moderate (3)	Amber Moderate (3)	Active
IP2.1.1R1	<u>Service users and carers do not take advantage of community and universal opportunities that would encourage greater independence.</u>	Neil Ayling - Chief Officer - Social Services	N/A	Half Year	1/04/2016	Amber Moderate (3)	Yellow Minor (2)	Active
IP2.1.1R2	<u>The quality of care home services will not meet required standards.</u>	Neil Ayling - Chief Officer - Social Services	N/A	Quarter	12/04/2016	Amber Moderate (3)	Amber Moderate (3)	Active
IP2.1.1R3	<u>Children and vulnerable families are not fully supported where multi-agency services and partners do not move toward an early intervention and prevention approach</u>	Neil Ayling - Chief Officer - Social Services	N/A	Annual	31/03/2016	Green Insignificant (1)	Green Insignificant (1)	Active

### Glossary of Terms

**Stakeholders** - residents, employees, Members and partners etc..

**Corporate Governance** – “The system by which organisations are directed and controlled”. Definition from the UK Code of Corporate Governance.

**Governance Framework** – Brings together the systems and processes, employees, other resources, culture and values by which the Council is managed and controlled and the activities through which if account to, engages with and leads the community. The framework enables the Council to monitor achievement against strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

**Annual Governance Statement** - a statutory document which explains the processes and procedures in place to enable the council to carry out its functions effectively.

**Business Plans** – Three year business efficiency plans have been developed as part of the Council’s Planning Framework. They are one of the three elements within the Council’s Medium Term Financial Strategy contributing towards reducing the funding gap up to 2017/18. The business plans are reviewed through a common governance structure of Programme Boards with officer and member involvement, including efficiency trackers and risk logs.

**Risk** - Can be a threat (negative) or an opportunity (positive). A threat is an event or action that will adversely affect an organisations ability to achieve its stated objectives and to successfully deliver approved strategies. An opportunity is an event or action that will enhance the organisations ability to achieve its objectives and deliver approved strategies, whether these be short term, long term or indeed planned. This will include both external and internal risks and opportunities.

**Risk Management** - the process of **identifying** risks, **evaluating** their potential consequences (impact) and **managing** them. The aim is to reduce the frequency (likelihood) of risk events occurring (wherever this is possible) and minimise the severity of their consequences (impact) if they occur. Threats are managed by a process of controlling, transferring or retaining the risk. Opportunities are managed by identifying strategies to maximise the opportunity or reward for the organisation.

**Risk Register** – Used to capture and maintain information on all identified threats and opportunities relating to a specific organisational activity.

**Business Continuity Management (BCM)** - a planned process aimed at managing the many varied operational risks inherent in the day to day activities involved in the delivery of service.

## Certificate of Compliance

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### Audit of Flintshire County Council's assessment of 2014-15 performance

#### Certificate

I certify that, following publication on 30 October 2015, I have audited Flintshire County Council's (the Council) assessment of its performance in 2014-15 in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe that the Council has discharged its duties under sections 15(2), (3), (8) and (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

#### Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to annually publish an assessment which describes its performance:

- in discharging its duty to make arrangements to secure continuous improvement in the exercise of its functions;
- in meeting the improvement objectives it has set itself;
- by reference to performance indicators specified by Welsh Ministers, and self-imposed performance indicators; and
- in meeting any performance standards specified by Welsh Ministers, and self-imposed performance standards.

The Measure requires the Council to publish its assessment before 31 October in the financial year following that to which the information relates, or by any other such date as Welsh Ministers may specify by order.

The Measure requires that the Council has regard to guidance issued by Welsh Ministers in publishing its assessment.

As the Council's auditor, I am required under sections 17 and 19 of the Measure to carry out an audit to determine whether the Council has discharged its duty to publish an assessment of performance, to certify that I have done so, and to report whether I believe that the Council has discharged its duties in accordance with statutory requirements set out in section 15 and statutory guidance.

## Scope of the audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit I am not required to form a view on the completeness or accuracy of information. Other assessment work that I will undertake under section 18 of the Measure may examine these issues. My audit of the Council's assessment of performance, therefore, comprised a review of the Council's publication to ascertain whether it included elements prescribed in legislation. I also assessed whether the arrangements for publishing the assessment complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing it.

The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.

## Recommendations under the Local Government (Wales) Measure 2009

There are no recommendations arising from the audit of Flintshire County Council's assessment of 2014-15 performance.



**HUW VAUGHAN THOMAS**

**AUDITOR GENERAL FOR WALES**

CC: Leighton Andrews, Minister for Public Services

Jeremy Evans, Manager

Paul Goodlad, Performance Audit Lead



## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday, 27 January 2016
<b>Report Subject</b>	Consultants
<b>Cabinet Member</b>	N/A
<b>Report Author</b>	Internal Audit Manager
<b>Type of Report</b>	Advisory

### EXECUTIVE SUMMARY

Every major organisation uses some consultants where it could not possibly retain specialist expertise in-house, where it has capacity gaps, where independence may be needed or where it is required, for example by an external grant funding such as through Welsh Government.

When used correctly and in the appropriate circumstances, consultants can provide great benefit to an organisation, achieving results that clients do not have the capacity or capability to do themselves. Consultants can offer expertise, advice and knowledge not otherwise available to the Authority, and can assist therefore in achieving our priorities and service objectives. However, in order to achieve these benefits the use of consultants must be controlled by management.

Getting value for money from the use of consultants is dependent upon defining and justifying the need for consultants, astute procurement and project management of the consultancy project, tight governance and accountability structures, and a thorough assessment of the benefits achieved.

The cost of consultants has been an area of interest to the Audit Committee for some time, and there have been various reports brought to the committee over the years – the last one in 2012. A further review was included in the audit plan for 2014/15. That review has now been completed and the resulting report is attached as Appendix A.

The scope of the review was the controls and processes around the engagement of consultants – it did not look at the need for the consultants or attempt to comment on the value added by the consultants. There was also no benchmarking with other Local Authorities – given the difficulties with definition, such a comparison would be of limited use.

The audit opinion is red, meaning there is limited assurance that risks are being managed in this area. Findings include the following:

- The consultancy spend figure on the general ledger is not considered to be accurate due to a high level of miscoding and misinterpretation of the consultancy definitions. Internal Audit is now working with Finance and Procurement to ensure that the ledger will be accurate in 2016/17.
- After the audit in 2012 an interim procedure was put in place for the appointment of consultants. However this has not been sufficiently effective and will now be replaced by the use of the Purchase to Pay (P2P) system.
- A review of a sample of consultancy engagements showed that they did not all have a supporting business case and the procurement did not always comply with Contract Procedure Rules. Measures are now being put into place to address these issues.

## RECOMMENDATIONS

1	To note and accept the report.
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE CONSULTANCY COSTS REPORT</b>
1.01	The use of consultants was on the audit plan for 2014/15, with the scope agreed as 'to provide assurance on the appointment and monitoring of consultants'. It became apparent when the audit commenced that this needed to be widened and the audit work became more advisory in nature. Whilst this delayed the completion of the audit, it added value to the Authority by facilitating solutions to the issues identified.
1.02	At the time the review started there were four general ledger codes for consultancy, each with its own definition. It became obvious that these definitions were not understood, resulting in a great deal of misinterpretation of what should be classed as consultancy and therefore miscoding within the ledger. Further, there was no monitoring undertaken of the entries to the codes. As part of the review the Internal Audit team researched the definition of consultants including consulting with the National Procurement Service. A proposed new definition was accepted by the Chief Officer Team in October. There will be two categories of consultant:- <ul style="list-style-type: none"> <li>• retained consultant, with a contract in place for the periodic provision of advice, and</li> <li>• project consultant, to work on defined and time limited projects relating to strategy, structure or management.</li> </ul>
1.03	This will be backed up by changes to account coding and procurement procedures, and communication of the changes to management. A team, led by Internal Audit with colleagues from finance, procurement and P2P,

	has been set up to ensure that the changes are made before the year end, so that consultancy costs can be analysed correctly during the next financial year.
1.04	After the previous audit in 2012 an interim procedure was set up to control the appointment of consultants, before the full implementation of P2P. A general review of the database showed that it had not been fully used. As P2P has now been rolled out, that system will be used in the future for the appointment of consultants.
1.05	All new consultancy engagements should be supported by a business case. In the past these have been inadequate or not in place. A new template has been produced by Internal Audit, which will be used in the future to ensure the robustness and authorisation of business cases.
1.06	Contract Procedure Rules were not always followed in the engagement, performance monitoring and review of consultants. The new processes should ensure tighter controls are in place. These include more interventionist control such as the authorisation of all business cases – over £25,000 by the Chief Executive, under £25,000 by the Chief Officer, Governance, and the ongoing monitoring of consultancy contracts.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None other than officer time and associated costs to implement the recommendations within the report. In the future, enhanced identification and control over costs for consultants.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	Chief Executive, Chief Officer Team, and officers within Finance and Procurement.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	The recommendations increase the controls and mitigate the risks around the procurement of consultants.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix A – Internal Audit Report Appendix B – Sample of Consultancy Engagements Appendix E – Interim Procedure Appendix F – National Procurement Service Business Case Template Appendix G – National Procurement Service Post Assignment Review Appendix H – Consultancy Business Case

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Appendix C – <a href="#">WG Public Accounts Committee Hearing Report</a>  Appendix D – <a href="#">WG Response to Public Accounts Committee Hearing</a></p> <p><b>Contact Officer:</b> David Webster, Internal Audit Manager  <b>Telephone:</b> 01352 702248  <b>E-mail:</b> david.webster@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>P2P.</b> Purchase to Pay. An electronic system used within the Authority to manage purchasing</p> <p><b>National Procurement Service</b> The National Procurement Service (NPS) for Wales is hosted by the Welsh Government, established to work on behalf of the wider public sector across Wales. By using combined purchasing power the goal is to ensure significant annual savings within procurement. In this endeavour it is engaging collaboratively with public sector member organisations in seeking to find the best available deals in common and repetitive spend.</p> <p><b>Contract Procedure Rules</b> A set of rules that must be complied with when purchasing goods and services.</p> <p><b>Matrix</b> A system for the recruitment of temporary employees / agency staff.</p>



# Flintshire Internal Audit

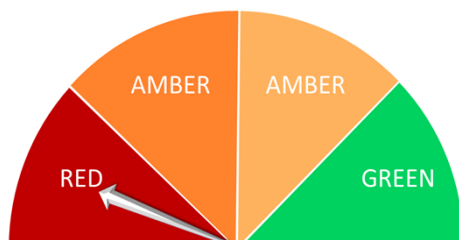
# Audit Report

**Title:** Consultancy Costs  
**Portfolio:** Corporate  
**Issued Dated:** January 2016  
**Report No:** 06-14/15  
**Report Status:** FINAL

Internal Audit engagements are conducted in conformance with the Public Sector Internal Audit Standards.

Page 81

## Audit Opinion



# 1. Executive Summary:

## Introduction and Scope:

The purpose of this review is to give assurance that appropriate specification, procurement and contract management processes are in place around the appointment of consultants to ensure appropriate use, quality and value for money for each appointment.

The scope of the review includes:

- Assessment of compliance with existing controls and best practice around the appointment and management of consultants.
- Consideration of the extent to which consultancy costs are being contained at a time of unprecedented cuts to funding.
- Review of the appropriateness of the current definitions of consultancy costs being used to classify consultancy spend on the general ledger.

Consultancy spend on the general ledger in 2014/15 totalled **£2,830,954** (2013/14: £2,131,082).

The consultancy spend figure on the general ledger is not considered to be accurate due to the level of miscoding to the general ledger, exacerbated by misinterpretation of the consultancy definitions supporting the general ledger consultancy codes. A significant amount of work would be required to clean up the general ledger to obtain an accurate figure for consultancy costs in 2014/15 – this work has not been carried out as part of this audit.

Data released in response to an FOI request in February 2015 showed Consultancy costs from 1<sup>st</sup> April 2014 to 17<sup>th</sup> March 2015 totalled £414,426 – this figure was not taken from the general ledger but was instead based on a request to Finance Officers for details of consultancy spend within their services. Finance are aware that the reported figure of £414,426 for 2014/15 (£893,604 for 2013/14) is understated as it was not possible to analyse all costs in the available timescale.

A sample of ten consultancy engagements were selected for detailed testing

## Audit Opinion:

In each report we provide management with an overall assurance opinion on how effectively risks are being managed within the area reviewed. See page 19 of this report for details of our assurance levels:

Assurance:	Explanation
<b>Red – Limited</b>	<p><b>Urgent system revision required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>▪ Key controls are absent or rarely applied</li> <li>▪ Evidence of (or the potential for) significant financial / other losses</li> <li>▪ Key management information does not exist</li> <li>▪ System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources.</li> </ul> <p>Impact: a lack of adequate or effective controls leading to a high probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.</p>

The table below highlights the number and priority of agreed actions to be implemented.

Priority	High	Medium	Low	Total
No.	1	11	2	14

as part of this audit as detailed at Appendix B.

An audit of Use of Consultants was carried out in January 2011 which resulted in the then Corporate Management Team agreeing an interim procedure for the appointment of consultants which required all engagements (excluding those through Matrix) to be recorded on the Consultancy Procurement Planning Database, and approved by the Head of Service or Director. The Interim procedure applied to all new engagements post 18<sup>th</sup> June 2012. The audit also recommended strengthening of the Contract Procedure Rules around the engagement of consultants. An audit of this interim procedure was carried out in June 2013.

Some of the issues identified in the previous two audit reports have not been addressed, specifically;

- There are still instances of non-compliance with the Contract Procedure Rules;
- Business Cases are not always in place to support Consultancy engagements;
- There is still no evidence of skills transfer at the end of consultancy engagements.

## 2. Summary Findings:

Page 84

Areas Managed Well	Areas for Further Improvement
<ul style="list-style-type: none"> <li>▪ There is evidence that the higher profile, large spend consultancy contracts have been well managed.</li> <li>▪ All consultancy spend is appropriately authorised through the P2P system.</li> <li>▪ The Consultancy Procurement Planning database includes Business Case templates to support consultancy engagements.</li> <li>▪ Business Cases are in place to support some of the consultancy appointments reviewed.</li> <li>▪ The Contract Procedure Rules have been complied with for some of the consultancy appointments reviewed.</li> </ul> <p>Chief Officers are confident that the sample of consultancy engagements reviewed provide value for money.</p>	<ul style="list-style-type: none"> <li>▪ It is not clear where overall responsibility lies for the control and management of consultancy spend.</li> <li>▪ Contract Procedure Rules have not been complied with for 6 of the 10 consultancy engagements reviewed as part of the audit.</li> <li>▪ One individual consultant has been awarded work totalling £160k over the last three financial years (covering 9 separate projects) for ‘project management’. We need to consider whether it would be more cost effective to directly employ a part time Project Manager to carry out this work.</li> <li>▪ The employment status of long term consultants needs to be considered to ensure they do not meet the HMR&amp;C definition of ‘disguised employees’.</li> <li>▪ Consultancy costs on the general ledger do not include those consultancy costs which have gone through Matrix (e.g. consultancy costs associated with the SHARP project).</li> <li>▪ There is currently no requirement for consultancy costs through Matrix to be supported by a business case.</li> <li>▪ The extent of miscoding to the general ledger suggests that there may be confusion and inconsistency around the identification and coding of consultancy spend.</li> <li>▪ There are no business cases in place to support 2 of the sample of 10 consultancy engagements reviewed as part of this audit, 2 of the remaining 8 engagements were supported by ‘informal’ business cases (verbal / email agreement).</li> <li>▪ A number of business cases on the Consultancy Procurement Planning Database are brief, with limited reference to ‘skills and knowledge transfer’, and limited reference to the ‘specific expertise and skills required’ and the ‘budget / procurement route’.</li> <li>▪ No evidence of formal monthly contract reviews for strategic, high value, high profile engagements (all contract monitoring has been informal).</li> </ul>

### 3. Action Plan:

Priority	Description
High	Action is imperative to ensure that the objectives of the area under review are met.
Medium	Requires action to avoid exposure to significant risks in achieving the objectives of the area.
Low	Action encouraged to enhance control or improve operational efficiency.

No.	Findings and Implications	Agreed Action	Who	When
1	<p>It is not clear where overall responsibility lies for the control and management of consultancy spend.</p> <p>There is no officer or service area responsible for ensuring compliance with the procedures put in place in 2012 to ensure consultancy spend is robustly managed.</p>	<p>For the immediate future the Chief Executive will be responsible for driving tighter controls around consultancy spend.</p> <p>Spend of £25k and over will be authorised by the Chief Executive, spend under £25k will be authorised by the Chief Officer, Governance.</p> <p>A communication will be put together for the Chief Officer Team detailing the new controls and processes to be put in place around consultancy spend.</p>	Colin Everett	1 <sup>st</sup> January 2016
2	<p>There are four general ledger codes on Masterpiece against which consultancy costs are coded;</p> <ul style="list-style-type: none"> <li>423A: Retained consultants, e.g. advisor's to the pension fund.</li> <li>423B: Retained for special projects, longer term.</li> <li>423C: Consultants for specific purposes, e.g. consultants appointed to look at the voids process in Housing; Consultants appointed to advice on new technology.</li> <li>423D: Consultants employed for specialist services such as training, e.g. social services trainers.</li> </ul> <p>Consultancy spend on 'Matrix' is coded to detailed code 0968 (Agency Costs) and not to the consultancy ledger</p>	<p>The scope for system development within Matrix will be explored, with the aim of ensuring all non-agency staff costs are appropriately identified and coded.</p>	Arwel Staples	1 <sup>st</sup> February 2016

No.	Findings and Implications	Agreed Action	Who	When
	<p>codes. As such consultancy costs on the general ledger are understated.</p> <p>A review of a sample of 2014/15 Matrix invoices identified two consultancy appointments which are not reflected in the consultancy cost codes on the general ledger (both appointments are coded to Agency costs);</p> <ul style="list-style-type: none"> <li>• Procurement Manager, SHARP project - Total spend April 2014 to Feb 2015 £118,715.</li> <li>• Project Manager, ICT – Total spend April 2014 to Feb 2015 £50,119.</li> </ul> <p>It is probable that there is further consultancy spend through Matrix not picked up in the sample of invoices reviewed as part of this audit.</p>			
3	<p>Review of general ledger transactions between April 2014 and March 2015 show that ledger code 423D is the most widely used consultancy code, there are however a number of payments coded to 423D which are not true consultancy costs, (423D includes IT support; provision of occupational health services; traffic surveys; fork lift truck training; debt collection fees, etc.).</p> <p>The extent of miscoding to the ledger and the number of transactions going through each of the consultancy ledger codes suggests that there is confusion and inconsistency around the identification and coding of consultancy spend, and a more concise definition of consultancy spend may be required.</p> <p>In February 2013 Wales Audit Office (WAO) carried out a review into the use of consultants across the Welsh Public Sector (“The Procurement and Management of Consultancy Services”), and recommended that public bodies should agree and adopt a common definition of consultancy services, and align their categorisation and coding of consultancy services in their financial systems</p>	<p>The new consultancy definition will need to be mapped against the Procurement Classification (PC) codes to enable category management / appropriate authorisation hierarchies to be set up within the P2P system.</p> <p>Some system development may be required to enable the 2 stage category management processes to be implemented.</p>	Arwel Staples / Consultancy Project Group	29 <sup>th</sup> February 2016

No.	Findings and Implications	Agreed Action	Who	When
	<p>and procurement databases.</p> <p>The WAO review was followed by a Welsh Government Public Accounts Committee (PAC) hearing in September 2013 (Appendix C), which included a recommendation that “The Welsh Government works in collaboration with other public sector bodies to develop a common understanding and definition of consultancy services”.</p> <p>The Welsh Government response to the PAC recommendations states that 'a common understanding and definition of consultancy services will be developed by the Head of Category for Professional Services, National Procurement Service (NPS) and agreed with stakeholders from across the public sector by March 2014' (Appendix D).</p> <p>As part of this audit we met with the Head of Category for Professional Services NPS, to discuss the work carried out in response to the PAC recommendations, and to consider their definitions of consultancy spend.</p> <p>The definitions provided by the NPS were discussed with the Chief Executive, who did not consider they were appropriate for use within the Authority, and as such a definition was proposed by Internal Audit which is a hybrid of the NPS definitions and the FCC definitions. This definition has now been agreed with the Chief Officer Team (COT);</p> <p>“The provision of objective advice relating to strategy, structure or management. Consultancy is likely to include the identification of options with recommendations, and may also include assistance with the implementation of solutions;</p> <ul style="list-style-type: none"> <li>Retained Consultant: Contract in place for the periodic provision of objective advice (e.g. advisors to the Pension Fund).</li> </ul>			

No.	Findings and Implications	Agreed Action	Who	When								
	<ul style="list-style-type: none"> <li>Project Consultant: Work on defined and time limited strategic projects relating to strategy, structure or management (e.g. Consultants appointed to provide advice around Single Status or consultants appointed to look at processes)".</li> </ul> <p>Using these definitions the bulk of FCCs 'consultancy' spend on our general ledger would actually be reclassified as payments for professional services allowing us clear sight of where our actual consultancy spend is incurred.</p>											
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 88</p> <p>4</p>	<p>It is difficult to reach an opinion on the extent to which consultancy costs are being contained due to the amount of miscoding to the general ledger, the lack of a concise definition of consultancy spend, and the difficulties in identifying and excluding consultancy costs which are fully or partially funded.</p> <p>As raw figures from the general ledger would not provide meaningful trend data, figures were obtained from the ledger of spend coded to consultancy codes 423A, 423B, 423C &amp; 423D where the suppliers had been classified under Procurement Classification (PC) codes 12100 (Business &amp; Management Consultants) and 61860 (Project Management Services).</p> <p><b>These figures have been used to provide indicative trend data only.</b> It is recognised that there are other consultancy costs on the general ledger which would not fall within PC codes 12100 and 61860 (e.g. Treasury Management, Fleet Management, Planning Consultants, etc.).</p> <table border="1" data-bbox="286 1366 1034 1441"> <thead> <tr> <th>Financial Year</th> <th>12100 (Business &amp;</th> <th>61860 (Project</th> <th></th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Financial Year	12100 (Business &	61860 (Project						<p>A joint communication will be issued to Finance Managers / Finance Officers and Budget Holders re the new consultancy definition and the new processes to be implemented around consultancy spend.</p> <p>Once the new consultancy definition has been introduced Finance will be responsible for monitoring posting to the general ledger code for accuracy, and liaising with budget holders to address miscoding.</p> <p>There will be no retrospective clean-up of the 15/16 ledger, with a report going to Audit Committee (Jan 2016) explaining that the 15/16 figures are 'unreliable' and explaining the new processes to be implemented to address the audit findings.</p>	<p>Sara Dulson / Consultancy Project Group</p>	<p>29<sup>th</sup> February 2016</p>
Financial Year	12100 (Business &	61860 (Project										



No.	Findings and Implications			Agreed Action	Who	When	
		Management Consultants)	Management Services)	Total			
	12/13	£297,392	£9,272	£306,664			
	13/14	£455,985	-	£455,985			
	14/15	£332,232	£101,218	<b>£433,450</b>			
5	<p>Based on spend under PC codes 12100 and 61860 only, the data shows an increase in consultancy spend since 2012/13, with a peak in 2013/14, however without detailed information re the extent of 'funded' costs it is not possible to reach a conclusion as to the effectiveness of the processes in place for containing consultancy spend.</p> <p>It is clear however that at a time of unprecedented cuts to funding there should be robust challenge of all consultancy engagements, with robust business cases in place, exit strategies to ensure the appropriate transfer of skills at the end of engagements and clear evidence that the market has been tested and value for money has been achieved in the procurement process.</p> <p>Robust data should be in place around consultancy costs to enable trends in spend to be identified and appropriately managed. This has been raised as an issue in the previous two audit reports.</p> <p>In June 2012 an interim procedure was introduced which required the appointment of all consultants (excluding those appointed through Matrix) to be recorded on the Consultancy Procurement Planning Database.</p> <p>The interim procedure (which is documented within the Consultancy Procurement Planning Database) is copied</p>			<p>Going forward the Consultancy Procurement Planning Database will no longer be used.</p> <p>Order originators will be required to attach a completed Business Case template to all P2P orders raised against suppliers with a consultancy procurement classification</p>	Kevin Patterson / Arwel Staples / Consultancy Project Group	29 <sup>th</sup> February 2016	

No.	Findings and Implications	Agreed Action	Who	When
Page 90	<p>at Appendix E.</p> <p>The database was set up to capture Business Cases to support the proposed appointment of consultants, together with the then Head of Service / Director approval of the appointment.</p> <p>General review of the database confirmed;</p> <ul style="list-style-type: none"> <li>• The database stands alone, processes are not work flowed from the database to P2P or the general ledger, likewise there is no interface between the database and our other financial / procurement systems;</li> <li>• As the database is completed before the consultant is engaged, the database does not hold the name of the consultant or the actual value of the contract, as such it can be difficult to reconcile spend on the ledger to approved engagements on the database.</li> <li>• Whilst some of the engagement requests on the database are supported by detailed business cases (attachments to the database), others only contain a few lines of narrative outlining the work to be undertaken.</li> <li>• Generally the business cases are not robust. Whilst there is a requirement to include information regarding 'specific expertise &amp; skills required, estimated length of engagement; outcomes &amp; outputs expected; skills &amp; knowledge transfer; budget &amp; procurement route' in many cases this information is missing.</li> <li>• In a number of cases the 'Commissioning Officer' and the 'Head of Service' are the same person, as such the Head of Service is both submitting and approving Business Cases.</li> <li>• Only one new engagement was added to the</li> </ul>	<p>(PC) code.</p> <p>The Chief Officer / category manager responsible for authorising consultancy spend will be responsible for ensuring an authorised Business Case is in place.</p>		

No.	Findings and Implications	Agreed Action	Who	When
	<p>database in 2014/15.</p> <p>Based on the issues identified, the Consultancy Procurement Planning Database is not currently adding value to the consultancy appointment process.</p> <p>The database was initially set up as an interim measure awaiting the full implementation of P2P. Now that the P2P system has been fully rolled out (excluding schools and costing systems) there may be scope to implement additional controls around consultancy spend within the system.</p>			
6	<p>As stated in para 2, Consultants have been engaged through the Matrix Agency system as follows;</p> <ul style="list-style-type: none"> <li>• Procurement Manager, SHARP project - Total spend April 2014 to Feb 2015 £118,715.</li> <li>• Project Manager, ICT – Total spend April 2014 to Feb 2015 £50,119.</li> </ul> <p>There is no requirement for consultancy appointments through Matrix to be supported by an approved Business Case.</p> <p>This inconsistency in the application of controls may result in appointments being made which have not been approved by the relevant Chief Officer.</p>	<p>The communication to Chief Officers referred to in paragraph 1 will reiterate the requirement for Business Cases (or evidence of an equivalent level of consideration of the value of an engagement) to be in place to support all consultancy engagements, including those sourced through Matrix.</p>	Colin Everett	1 <sup>st</sup> January 2016
7	<p>A sample of consultancy engagements since 2012 was chosen to ensure each engagement could be supported by an approved business case.</p> <p>The sample covered five different consultants; one of the consultants had been awarded six separate pieces of work since 2012 and as such each piece of work was reviewed to ensure due process had been followed and there was an approved business case in place.</p> <p>It was confirmed that Business Cases were in place for</p>	<p>The new processes introduced as a result of this audit should ensure formal business cases (or evidence of an equivalent level of consideration of the value of an engagement) are in place to support all consultancy engagements.</p>	n/a	n/a

No.	Findings and Implications	Agreed Action	Who	When
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 92</p>	<p>five of the sample of ten engagements, three further engagements within the sample did not require a Business Case as in two instances the consultant was appointed pre June 2012, and the third instance the appointment was made through Matrix.</p> <p>Of the five Business Cases in place two were fully approved on the Consultancy Procurement Planning Database, one was on the database but had not been fully approved, and two were supported by ‘informal business cases’, i.e. verbal / email discussion / approval of engagement.</p> <p>Two engagements in the sample were not supported by Business Cases.</p> <p>The Chief Executive considers that business cases are the ‘lynchpin’ which ensures the appropriate management of consultancy spend, and as such there should be business cases of some type in place for all consultancy spend, and these business cases should be appropriately authorised.</p>			
	<p>8</p> <p>The three business cases on the Consultancy Procurement Planning Database referred to in point 7 were reviewed, with a view to assessing robustness.</p> <p>In each case the content within the business case was brief, and the template had not been fully completed (no references have been made to ‘skills and knowledge transfer’, and there is limited reference to the ‘specific expertise and skills required’ and the ‘budget / procurement route’).</p> <p>As part of their tool box for the management of consultancy spend the National Procurement Service have developed a Business Case template (Appendix F) which seeks to bring together all the information required to effectively authorise and manage an engagement in</p>	<p>The Business Case template proposed by Internal Audit will be used going forward (recognising that the document may need to be amended to ensure it remains fit for purpose).</p>	<p>Colin Everett</p>	<p>1<sup>st</sup> January 2016</p>

No.	Findings and Implications	Agreed Action	Who	When
	<p>one document. In addition to the information captured in our existing business case template, the NPS template also captures 'measures of success' (identified at the planning stage), 'resource requirements', 'key benefits to be delivered', 'exit strategy', risks associated with the engagement and key measures for effective contract management.</p> <p>The NPS Business Case template was discussed with the Chief Executive who considered it was not appropriate for use within the Authority, as such a template was drafted by Internal Audit which is a hybrid of the NPS template and the Business Case Template on the Consultancy Procurement Planning Database (Appendix H).</p>			
<p>Page 93</p> <p>9</p>	<p>The sample of ten consultancy engagements (used for detailed testing) were reviewed to ensure each engagement complied with the Authority's Contract Procedure Rules.</p> <p>The Contract Procedure Rules had not been complied with for six of the engagements in the sample (6 engagements relating to the same firm of consultants).</p> <p>In each case the Service Manager / Chief Officer stated that the Contract Procedure Rules had not been applied as the consultant had extensive experience within the Authority, was charging a competitive day rate, and came with recommendations from other Chief Officers. No exemptions from tendering were claimed.</p> <p>The Contract Procedure Rules state that value for money should be demonstrated for all contracts less than £10,000. For contracts between £10,001 and £25,000 a minimum of three tenders must be invited, and for contracts between £25,001 and the OJEU limit a minimum of four tenders should be invited which must be sourced through public advertisement via the National</p>	<p>The new processes introduced as a result of this audit should ensure tighter controls around consultancy spend.</p> <p>The proposed procurement route for each consultancy engagement will be identified in the Business Case which will be authorised by the Chief Officer, Governance (or by the Chief Executive if the estimated cost of the engagement exceeds £25k).</p> <p>Chief Officers will be reminded that there must be transparency around the appointment of all consultants.</p>	<p>Colin Everett</p>	<p>1<sup>st</sup> January 2016</p>

No.	Findings and Implications	Agreed Action	Who	When
	Procurement Website.			
10	<p>In addition to the issue around failure to comply with the Contract Procedure Rules (point 9) there is also the risk that if contracts are repeatedly awarded to the same consultant, and the contracts constitute a large part of the consultants' workload over a sustained period of time, HM Revenue &amp; Customs may question the consultants' employment status.</p> <p>HM Revenue &amp; Customs may view a consultant as a "disguised employee" being paid through a Ltd Co to avoid the payment of income tax.</p>	See Agreed Action at point 9.	n/a	n/a
11	<p>Review of the general ledger and the P2P system confirmed that one consultancy firm had been awarded consultancy work totalling circa £160k over the three financial years from 2012/13 to 2014/15 for project management work across a number of different projects.</p> <p>We need to consider whether efficiency savings could be achieved through the direct employment of a part or full time Project Manager in place of the consultant.</p>	<p>Chief Officers will be asked to identify all significant consultancy appointments within their service areas and review the progress of each project against the scope of the work agreed at the start of each project.</p> <p>Reviews need to take place around value, timescales, cost, etc.</p> <p>Going forward the completion of Business Plans will ensure alternatives to the appointment of a consultant are adequately considered. These are reported through Programme Boards.</p>	Colin Everett	1 <sup>st</sup> January 2016
12	<p>Paragraph 38 of the Contract Procedure Rules states that "all contracts which are strategically critical and / or high risk and / or high value and / or high profile as determined by the relevant Head of Service within their own service area, are to be subject to a minimum monthly formal contract review with the contractor."</p> <p>Of the sample of ten consultancy engagements selected for detailed testing, there are possibly two which would fall within paragraph 30 of the CPR's in that they could</p>	<p>Contract monitoring requirements will need to be identified in the Business Case completed prior to the engagement of the consultant.</p> <p>Contract monitoring will also be picked up as part of the 'post assignment review' which will be work flowed through the Proactis contract management module.</p>	Colin Everett	1 <sup>st</sup> January 2016

No.	Findings and Implications	Agreed Action	Who	When
	<p>be defined as ‘strategically critical’ or ‘high profile’ as follows;</p> <ul style="list-style-type: none"> <li>• Senior Management Restructure;</li> <li>• Single Status Project Management.</li> </ul> <p>There is no evidence of ‘formal’ monthly contract reviews for either of these engagements, all contract monitoring has been informal (discussions re fee billing, work requirements, quality of output, scope delivery, monitoring of spend and informal monitoring of progress as part of the invoice approval process, etc.).</p> <p>As part of their tool box for the management of consultancy spend the National Procurement Service (NPS) have developed a Post Assignment Review template (Appendix G) which provides a minimum set of considerations for gathering “lessons learned” from each consultancy engagement. The template is considered to be an important part of the due diligence and is designed to be completed with a view to the original Business Case.</p>			
13	<p>Paragraph 39 of the Contract Procedure Rules states that “all contractors shall be subject to regular contract performance reviews, through feedback received from external and internal stakeholders. If practical, a performance review shall be undertaken at the end of each completed contract / job”.</p> <p>Discussions with commissioning managers confirmed that informal contract reviews are being carried out (ongoing discussions re progress, timetabling, quality of delivery, etc.) but these are not formally documented. For some projects regular updates have also been provided to the Chief Executive and Members.</p> <p>Performance reviews have not been carried out at the end of consultancy engagements to identify areas in</p>	See Agreed Action at point 12.	n/a	n/a

No.	Findings and Implications	Agreed Action	Who	When
	<p>which the engagement has been successful and areas in which it was less successful. This type of review may be useful in informing future procurement exercises, and future contract monitoring.</p>			
14	<p>Category management has been introduced within the P2P system to control some costs. Each supplier on P2P has been allocated a procurement classification (PC code) and all proposed spend within certain PC codes must be pre-authorized by the designated category manager.</p> <p>There is no category management in place around spend on Business and Management Consultants (PC code 12100). A category manager was in place between January 2014 and October 2014 but the post was not reallocated on the retirement of the post holder.</p> <p>If robust business cases are in place to support consultancy engagements there is limited value added by requiring the pre authorisation of all consultancy spend, however if consultants continue to be engaged without business cases category management would provide an additional layer of control to ensure senior management are aware of spend.</p>	<p>Going forward all consultancy purchase orders entered onto the P2P system will be authorised by the Chief Officer, Governance (as category manager).</p> <p>Orders will only be authorised if supported by a robust Business Case.</p> <p>All orders in excess of £25k will be authorised by the Chief Executive.</p>	Colin Everett	1 <sup>st</sup> January 2016



## 4. Additional Audit Comments:

The purpose of this section is to inform Managers of those areas where:

- A finding has been discussed but which has not been included within the overall audit opinion.
- Value for money has been considered and areas of opportunity for further improvement have been identified.

No.	VFM Findings / Suggestions	Management Comment
<b>Value for Money:</b>		
1	<p>On the adoption of the new definition of consultancy spend we need to be mindful that robust controls remain in place around the engagement of ‘Specialist Contractors’ and other professional services to ensure this spend is appropriately managed.</p>	<p>It is recognised that professional fees, etc. will increase as a result of the implementation of the new consultancy cost definition.</p>
2	<p>Any amended definition of consultancy costs and changes to the General Ledger coding structure needs to allow for the clear identification of those consultancy costs which are fully or partially funded from outside the Authority (e.g. costs funded through external grants, costs met through regional partnerships, contributions from other Local Authorities, etc.). This would allow us to clearly identify our consultancy spend as a Local Authority, and going forward allow us to identify trends in spend and manage them appropriately.</p> <p>The existing general ledger coding structure does not allow for the easy identification of funded costs (this could be determined from a review of the cost centre codes for each transaction on the ledger, but would be a time consuming task).</p>	<p>This is something which is being looked at by Corporate Finance but is actually quite problematic.</p> <p>A ‘Practitioners Group’ is in the process of being put together to look at the use of separate codes within the ledger for accounting for grants, and the outcomes of this group will also apply to funded consultancy costs.</p>

**Suggestion:**

3

The Contract Procedure Rules state that ‘the engagement of consultants must be approved in the first instance by relevant Head of Service / Director and such approval shall be recorded on the Corporate Register of Consultants that may be in place centrally’.

The Contract Procedure Rules should be updated to reflect any decisions made around continuing use of the Consultancy Procurement Planning Database.

Accepted.

## 5. Distribution List:

Name	Title
Colin Everett	Chief Executive (Accountability Officer)
Helen Stappleton	Chief Officer (People & Resources)
Gareth Owens	Chief Officer (Governance)
Ian Budd	Chief Officer (Education & Youth)
Neil Ayling	Chief Officer (Social Services)
Claire Budden	Chief Officer (Community & Enterprise)
Steve Jones	Chief Officer (Streetscene & Transportation)
Andy Farrow	Chief Officer (Planning & Environment)
Neal Cockerton	Chief Officer (Organisational Change)
Jan Bancroft	Chief Officer (Organisational Change)
Arwel Staples	Strategic Procurement Manager
Kevin Patterson	Project Manager P2P
Gary Ferguson	Corporate Finance Manager
Sara Dulson	Finance Manager
Andy Argyle	Senior Procurement Officer
Lisa Price	Procurement Officer
Suzanne Rogers	Accountant

## Audit Opinion:

The audit opinion is the level of assurance that Internal Audit can give to management and all other stakeholders on the adequacy and effectiveness of controls within the area audited. It is assessed following the completion of the audit and is based on the findings from the audit. Progress on the implementation of agreed actions will be monitored. Findings from **Some** or **Limited** assurance audits will be reported to the Audit Committee.

Assurance	Explanation
<b>Green - Substantial</b>	<p><b>Strong controls in place (all or most of the following)</b></p> <ul style="list-style-type: none"> <li>▪ Key controls exist and are applied consistently and effectively</li> <li>▪ Objectives achieved in a pragmatic and cost effective manner</li> <li>▪ Compliance with relevant regulations and procedures</li> <li>▪ Assets safeguarded</li> <li>▪ Information reliable</li> </ul> <p>Impact: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.</p>
<b>Amber Green – Reasonable</b>	<p><b>Key Controls in place but some fine tuning required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>▪ Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact</li> <li>▪ Some refinement or addition of controls would enhance the control environment</li> <li>▪ Key objectives could be better achieved with some relatively minor adjustments</li> </ul> <p>Impact: key controls generally operating effectively but there remains a potential risk of loss, fraud, impropriety or damage to reputation and / or failure to deliver organisational objectives.</p>
<b>Amber Red – Some</b>	<p><b>Significant improvement in control environment required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>▪ Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively</li> <li>▪ Evidence of (or the potential for) financial / other loss</li> <li>▪ Key management information exists but is unreliable</li> <li>▪ System / process objectives are not being met, or are being met at an unnecessary cost or use of resources.</li> </ul> <p>Impact: key controls are generally inadequate or ineffective and there is an increased probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.</p>
<b>Red – Limited</b>	<p><b>Urgent system revision required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>▪ Key controls are absent or rarely applied</li> <li>▪ Evidence of (or the potential for) significant financial / other losses</li> <li>▪ Key management information does not exist</li> <li>▪ System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources.</li> </ul> <p>Impact: a lack of adequate or effective controls leading to a high probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.</p>

## Appendix B – Sample of Consultancy Engagements:

A sample of ten consultancy engagements were selected for detailed testing as part of this audit.

Some of these contracts were well managed, the contracts which were not well managed have been referred to in Section 3.

<b>Project</b>	<b>Invoiced 12/13 to 14/15</b>	<b>Approved PO's not invoiced at 25/3/15</b>
1	£19,750	-
2	£70,924	-
3	£264,000	-
4	£72,800	-
5	£8,000	£10,600
6	£7,800	£16,800
7	£28,000	-
8	-	-
9	£10,000	-
10	£118,715	-

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## Consultancy Procurement Plan

**How to Use:** The Consultancy Procurement Plan must be completed before engaging any external consultants. Before completion consideration must be given to using internal resources and expertise. These resources and expertise may not exist within your own service area or directorate so please consult with colleagues in other directorates and even within other North Wales Councils before engaging external resources, The plan must be authorised by your Head of Service. In terms of the procurement route to follow please refer to the Council's Contract Procedure Rules or seek advice from the Corporate Procurement Unit. A copy of the completed procurement plan must be forwarded to the Corporate Procurement unit to enable a pan Council awareness of external consultancy for relevant reporting.

**Directorate &  
Service Area**

**Commissioning  
Manager**

**Category of  
Consultancy**

*See definitions  
overleaf.*

**Statement of  
requirements**

*i.e. project  
description, specific  
expertise and skills  
required, estimated  
length of  
engagement,  
previous experience  
etc*

**Objectives of the  
engagement.**

*i.e. outcomes and  
outputs expected,  
wherever possible  
these should be  
measurable.  
Skills and knowledge  
transfer must be  
included in  
objectives.*

**Business Case for engagement of external consultants**  
*i.e. have we considered internal resources, partner resources etc*

--	--

**Budget and Procurement Route**  
*i.e. The budget must be identified in advance of the engagement and the procurement route as per CPR's and agreed with the corporate procurement unit*

--	--

The approver is responsible for the procurement of the external consultancy services. They will also ensure that a work plan is agreed and monitored with the consultant and that all identified outputs and outcomes as identified above are met. The approver will also ensure that staff work alongside the consultant to ensure appropriate knowledge and skills transfer.

	Name & Position	Date
<b>Approved By</b>		

**Consultant Category Definitions**

1. Retained consultant, e.g. advisors to the pension fund
2. Retained for special projects, longer term
3. Consultants for specific processes, e.g. consultants appointed to look at the voids process in Housing, consultants appointed to advise on a new technology
4. Consultants employed for specialist services such as training, e.g. social services trainers





**BUSINESS CASE FOR PROFESSIONAL SERVICES**

**APPROVAL FOR PROFESSIONAL SERVICES REQUIREMENTS ABOVE £25K**  
*PLEASE ENSURE THAT YOU READ THE GUIDANCE WHEN COMPLETING THE TEMPLATE*

Business Case Ref		Parent Business Case		Directorate or Business Area	
Title				Submission Date	

**SECTION 1 – STRATEGIC CASE**  
To be completed by the Business Stream

<b>1. Role Objectives.</b> Outline SMART deliverables and parameters for the project	<b>Measure of Success</b>

<b>2. Person Responsible for Managing the Contract.</b>	
---	--

<b>3. Requirement.</b> Summarise the resource requirement and how the solution should operate
--

--

<b>3a. Requirement</b>	<input type="checkbox"/> New Role <input type="checkbox"/> Extension
	<b>Please provide Justification for extension:-</b> <div style="border: 1px solid black; height: 80px;"></div>

<b>3b. Consideration of Employment Status</b> What is the employment status of the individual or group or workers that you are potentially contracting with. (If contracting direct with individuals or groups of workers there could be potential VAT and National Insurance implications / liabilities for the contracting body). Please complete The HMRC Employment Status Indicator, and record the ESI reference. <a href="http://www.hmrc.gov.uk/calcs/esi.htm">http://www.hmrc.gov.uk/calcs/esi.htm</a>	<b>Employment Status:-</b> <div style="border: 1px solid black; height: 60px;"></div>
	<b>HMRC ESI Reference:-</b> <div style="border: 1px solid black; height: 60px;"></div>

<b>4. Proposed Procurement Route.</b> Please indicate the proposed procurement route and give an explanation below.	<input type="checkbox"/> NPS FW (Mini Competition) <input type="checkbox"/> Other Framework (Mini Competition)
	<input type="checkbox"/> Competitive Tender <input type="checkbox"/> Single Tender Action
	<input type="checkbox"/> Competitive Quotes <input type="checkbox"/> Extension

<b>5. Proposed Start Date.</b>				<b>6. Estimated End Date.</b>			
--------------------------------	--	--	--	-------------------------------	--	--	--



**BUSINESS CASE FOR PROFESSIONAL SERVICES**

**6. Retrospective Business Case?**

Yes  No

Please provide explanation for retrospective business case:--

**7. Benefits.**

Describe key benefits (indicate benefits type)

Please provide description of key benefits that will be delivered as a result of this engagement:- **Eg Quantitative** – rate reduction, £ savings, £ cost reductions to existing processes, up skilling of staff. **Qualitative** – community benefits.

Description of key benefits:-

Quantitative  Qualitative

**8. Category**

- Professional Services Consultancy
- Professional Services Interim & Specialist
- Professional Services Other
- Administrative Staff (Agency)
- Research

**9a. Consultancy - Sub Category.**

Add in Link to defs

- Strategy  Financial  Legal  HR  PPM  IT
- Organisational  Property / Estates  Marketing  Technical
- Procurement

**9b. Temporary Staff - Sub Category.**

- Interim Manager  Specialist Contractor  Administrative Staff (Agency)

**10. Skills Transfer and Exit Strategy.**

Outline how the desired skills of the resource will be transferred to internal staff and monitored. (If appropriate).

Define the exit plan(s)



## BUSINESS CASE FOR PROFESSIONAL SERVICES

11. Budget.	Year 1 (state year below)				Year 2 (state year below)	Year 3 (state year below)	Total
	QTR 1	QTR 2	QTR 3	QTR 4			
	<b>Total £</b>				<b>£</b>	<b>£</b>	<b>£</b>

### 12. Risks Identified: Specify top two (2).

Risk Description	Consequence	Probability (High/Medium/Low)	Who is responsible for managing this risk? (Supplier / Organisation)

### 13. Contract Management.

Name of Contact Manager responsible for monitoring performance / delivery	Key Measure (Quantity/Price/Risk/Time)	Frequency of Measurement
	Eg Achievement of milestones	Quarterly/ Monthly
	Draft / finalised reports	

## SECTION 2 – ECONOMIC CASE

To be completed by the Business Stream

### 1. What alternatives options to letting this contract have been explored and what are the reasons for not pursuing them?

Option	Impact	Recommended Option
Do Nothing		<input type="checkbox"/> Yes <input type="checkbox"/> No
Do Internally (if possible)		<input type="checkbox"/> Yes <input type="checkbox"/> No
Do Minimal (do what is done now but with minor adjustments to maintain status quo)		<input type="checkbox"/> Yes <input type="checkbox"/> No
Additional Resource		<input type="checkbox"/> Yes <input type="checkbox"/> No



**BUSINESS CASE FOR PROFESSIONAL SERVICES**

2. Confirmation given for expenditure from budget?

Yes  No

**SECTION 1 & 2 – STRATEGIC AND ECONOMIC CASE – SIGNOFF**

to be signed off by the Director of the Business Stream

Position	Name	Date	e-Signature

**SECTION 3 – HR CASE (RECOMMENDATIONS)**

to be completed by HR Business Partner

1. Other Options Checked?

Managed Moves  Loan  Secondee  FTA  
 PPM Pool

2. Skills Available Internally?

Yes  No

3. Business Area Consulted?

Yes  No

4. Date

**SECTION 3 – HR CASE – SIGNOFF**

to be signed off by the HR Business Partner

Position	Name	Date	e-Signature

**SECTION 4 – COMMERCIAL CASE (RECOMMENDATIONS)**

to be completed by Procurement

1. Recommended Procurement Route.

NPS Framework (Mini Competition)  Alternative Framework (Mini Competition)  Competitive Tender  Single Tender Action  Competitive Quotes  
 Extension

2. Recommended Category

Professional Services Consultancy  Interim & Specialist  Administrative Staff (Agency)  
 Professional Services Other  Research

2a. Consultancy - Sub Category.

Strategy  Financial  Legal  HR  PPM  IT  
 Organisational  Property / Estates  Marketing  Technical  
 Procurement

<b>2b. Temporary Staff - Sub Category.</b>	<input type="checkbox"/> Interim Manager <input type="checkbox"/> Specialist Contractor <input type="checkbox"/> Administrative Staff (Agency)				
<b>3. Explanation of Recommendation.</b>					
<b>4. Business Area Consulted?</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No		<b>5. Date</b>		
<b>SECTION 4 – COMMERCIAL CASE – SIGNOFF</b> to be signed off by the Procurement Category Manager/ Strategic Procurement Lead					
<b>Position</b>	<b>Name</b>	<b>Date</b>			<b>e-Signature</b>
<b>SECTION 5 – BUSINESS CASE – SIGNOFF</b> To be signed off by the appropriate level of delegated authority in line with the Organisations delegated authority and operating procedures (E.g. Director / Head of Finance, Head of Dept. etc.)					
<b>1. Business Case Accepted or Rejected?</b>		<input type="checkbox"/> Rejected <input type="checkbox"/> Accepted			
<b>Position</b>	<b>Name</b>	<b>Date</b>			<b>e-Signature</b>
<b>FINAL AUTHORISATION TO BE SIGNED OFF BY A PERMANENT SECRETARY/ MINISTER – IN LINE WITH DELEGATIONS / DEPARTMENTAL PROCESSES</b> (For requirements above £100k)					
<b>Position</b>	<b>Name</b>	<b>Date</b>			<b>Signature</b>

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## Post- Assignment Review Template

**This is required for projects in excess of £10,000 and is advised for all other assignments.**

### What is this document for?

In order to ensure that the Welsh Government buys consultancy services as effectively as possible, it is necessary to take every opportunity to further refine and improve our processes. This template provides a minimum set of considerations for gathering “lessons learned” from every consultancy purchase we make. This template is an important part of the due diligence and should be completed in light of the original justification / Business Case. Completion should involve senior staff from the project team. The template has two parts. The first relates to the project as a whole, including, but not limited to those tasks performed by the consultants. The second part relates only to the consultants’ performance.

The aim of the review is to ensure VFM is achieved from consultancy engagements, and where appropriate successful skills and knowledge transfer. Completion and submission of this template enables routine collection of performance information, and the ability for NPS to implement Strategic Supplier Relationship Management, thus further increasing supplier performance and driving further value from Welsh Government consultancy expenditure.

### How will it be used?

Business areas should use this document, alongside the original Business Case (or other type of justification) to inform their understanding of the reasons they buy consultancy and the factors that contribute to project success, project failure or any variation in predicted spend, timelines or resources. Business Cases and Post-Project Reviews will also be used to support reviews of the types of external resource purchased, to seek alternatives (like recruiting those types of skills that we buy regularly) and to review and continue to improve the Welsh Government’s use of consultants.

### Who should be involved in the review?

The number of people involved in the review will depend on the scale of the project but should involve at least the people listed in the table below. For small projects, one individual may fulfil several of the roles listed.

Individual	Description	Minimum Role During the Review
Senior Responsible Owner	The most senior individual in the Directorate who had ultimate responsibility for the project	To sign-off the completed review
Project Manager	The staff member that was responsible for monitoring the consultants activity	Present throughout the review
Impacted Staff	Any staff member whose work or position is affected by the project itself and/or by its recommendations	Input to questions regarding communication, lessons learned and what would be done differently next time.
External Stakeholders	Any external individual or organisation that is affected by the project itself and/or by its recommendations	To provide input to questions regarding communication and lessons learned



**Post-Project Review Template - Part One – General Project Review**

<b>Project Name</b>		<b>Directorate</b>	
<b>Name of Project Manager</b>		<b>Name of Senior Responsible Owner</b>	
<b>Cost Centre Number</b>		<b>Purchase Order Number</b>	
<b>Project Cost agreed with the supplier at initial Engagement (as documented in approved business case)</b>		<b>Total expenditure paid to supplier by end of engagement, including expenses (detail separately a forecast of any expenditure yet to be paid).</b>	
<b>Estimated project completion date at initial engagement</b>		<b>Actual project completion date</b>	
<b>Please state any Expected Efficiency Savings delivered or secured by the project (£)</b>		<b>Expected Return on Investment – ROI (Efficiency saving divided by actual cost)</b>	
<b>Actual project duration</b>			
<b>Please state the reasons for any delay in project completion</b>			
<b>Please state the original objectives (refer to Business Case)</b>			
<b>Were the original objectives met? (if “No”, please detail in comments)</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>	<b>Comments:-</b>	





<b>Were any additional benefits delivered?</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>Please describe the additional benefits</b>		
<b>Might other business areas benefit from the outputs of this work? (Please detail the top two business areas in the Comments field)</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<b>Comments:-</b>
<b>Did the engagement recommend what was already suspected or planned? If "Yes", please use the Comments field to state why the work was still necessary)</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<b>Comments:-</b>
<b>Will the project recommendations be implemented? (If "No", please explain why not in the Comments field)</b>		<b>Comments:-</b>
<b>What were the key critical success factors that enabled this project to be a success, or the lack of which resulted in project failure?</b>		
<b>What are the key lessons you would take on board if repeating this exercise?</b>		



Post-Project Review Template - Part Two – Consultant Performance Review								
How effective was communication?	Between Staff & Consultants	<input type="checkbox"/> Very Good <input type="checkbox"/> Satisfactory <input type="checkbox"/> Poor <input type="checkbox"/> Very Poor <input type="checkbox"/> N/A	Between Consultants and internal Stakeholders	<input type="checkbox"/> Very Good <input type="checkbox"/> Satisfactory <input type="checkbox"/> Poor <input type="checkbox"/> Very Poor <input type="checkbox"/> N/A	Between Consultants External Stakeholders	<input type="checkbox"/> Very Good <input type="checkbox"/> Satisfactory <input type="checkbox"/> Poor <input type="checkbox"/> Very Poor <input type="checkbox"/> N/A		
Were any changes to specification, project timescales and/or total cost authorised through an agreed change protocol. (If “Yes”, please explain key rationale)	<input type="checkbox"/> Yes <input type="checkbox"/> No		Comments:-					
Will internal staff now be able to carry out this work in the future? (If “No”, please explain why the necessary skills were not transferred to “in-house” staff).	<input type="checkbox"/> Yes <input type="checkbox"/> No		Comments:-					
Did the consultants deliver against their original brief as set-out in the Statement of Requirements? (If “No” please explain what was not delivered and why)	<input type="checkbox"/> Yes <input type="checkbox"/> No		Comments:-					
Overall, please rate the services purchased. (If less than “Good”, please explain in the comments field)	<input type="checkbox"/> Very Good <input type="checkbox"/> Satisfactory <input type="checkbox"/> Poor <input type="checkbox"/> Very Poor		Comments:-					

**Project Team Sign-Offs**

Senior Staff involved in the project should indicate their endorsement of this review document by placing their signatures in the spaces provided below

Name of Senior Responsible Owner		Signature of Senior Responsible Owner	
Project Manager		Signature of Project Manager	
Additional Signatories			

## BUSINESS CASE FOR CONSULTANCY SPEND

<b>TO BE COMPLETED AND AUTHORISED PRIOR TO THE ENGAGEMENT OF ALL CONSULTANTS</b>		
<b>Portfolio &amp; Service Area:</b>		
<b>Person responsible for managing the contract:</b>		
<b>Proposed contract start date:</b>	<b>Proposed contract end date:</b>	
<b>Agreed Consultancy hours per week / agreed hours across project</b>		
<b>Total estimated cost of engagement:</b>	<b>Budget code:</b>	
£		
<b>Reason for engagement of consultant:</b> Summarise the resource requirements and provide a description of the key benefits that will be delivered as a result of this engagement.		
<b>Objectives of the engagement:</b> Outline SMART deliverables and Measures of Success for the engagement.		
<b>Proposed procurement route:</b> Indicate the proposed procurement route (with explanation as appropriate).		
<b>Skills transfer &amp; exit strategy:</b> Outline how skills will be transferred to internal staff at the end of the engagement.		
<b>Risks to the success of the engagement:</b> What are the main risks to the success of the engagement and how will they be managed?		
<b>Contract Monitoring</b>		
Name of contract manager responsible for monitoring performance / delivery	Key performance measures	Frequency of measurement
<b>What alternatives to the appointment of a consultant have been explored and what are the reasons for</b>		

## BUSINESS CASE FOR CONSULTANCY SPEND

not pursuing them?			
Option	Reason for not pursuing		
Business Case Completed by:			
Position	Name	Date	Signature
Contact number		Email address	

Business Case Authorisation and Sign off:			
ALL CONSULTANCY ENGAGEMENTS UNDER £25K TO BE APPROVED BY THE CHIEF OFFICER, GOVERNANCE. ALL PROPOSED SPEND OF £25K AND OVER TO BE APPROVED BY THE CHIEF EXECUTIVE			
Business Case accepted or rejected?	Accepted <input style="width: 80%; height: 20px;" type="text"/>	Rejected <input style="width: 80%; height: 20px;" type="text"/>	
Position	Name	Date	Signature
Comments			

## BUSINESS CASE FOR CONSULTANCY SPEND

<b>TO BE UPDATED FOLLOWING PROCUREMENT OF THE CONSULTANT</b>		
<b>Portfolio &amp; Service Area:</b>		
<b>Post Procurement Information</b>		
Project Name		
Consultant appointed		
Agreed price & budget code	£	
Is the agreed price in line with the estimated cost in the original business plan? If not then reasons to be provided.		
Agreed start and end date for contract	Start Date:	End Date:

<b>TO BE UPDATED ON COMPLETION OF THE CONSULTANCY PROJECT</b>	
<b>Post Assignment Review</b>	
Total Cost Incurred	£
State the reason for any increase in costs above the 'agreed price'.	
State the reason for any delay in project completion.	
Detail any efficiency savings delivered or secured by the project.	
Were the original business objectives met?	
Were any additional benefits identified?	
Will internal staff now be able to carry out this work in the future (transfer of skills)?	
Was formal contract monitoring undertaken as outlined at the planning stage?	
Please rate the overall service purchased (with explanations for any rating less than 'satisfactory').	<input type="checkbox"/> Very good <input type="checkbox"/> Poor <input type="checkbox"/> Good <input type="checkbox"/> Very Poor <input type="checkbox"/> Satisfactory
Comments:	

## BUSINESS CASE FOR CONSULTANCY SPEND

<b>Completed by:</b>	<b>Date of Completion:</b>
<b>Consultant 360° review of engagement</b>	
Summary of comments from consultant following the completion of the engagement (comments re procurement process / management of engagement, etc).	

**These documents are to be retained for 6 years following the end of the consultancy engagement for review by Internal Audit and for other cost management and monitoring purposes.**



## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday 27 January 2016
<b>Report Subject</b>	Treasury Management Strategy 2016/17 Treasury Management Policy Statement 2016-19 Treasury Management Practices 2016-19 Treasury Management Mid-Year Review 2015/16 Treasury Management Update 2015/16
<b>Cabinet Member</b>	Cabinet Member for Finance
<b>Report Author</b>	Corporate Finance Manager
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

The report presents the draft Treasury Management Strategy 2016/17 for review and seeks the Committee's recommendation for approval to Cabinet, in conjunction with:-

- Draft Treasury Management Policy Statement 2016 – 2019,
- Draft Treasury Management Practices 2016 – 2019.

The report provides an update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2015/16.

- Draft Mid-Year review 1<sup>st</sup> April – 30<sup>th</sup> September 2015, presented for Committee's comments and recommendation for approval to Cabinet
- 3<sup>rd</sup> quarter update 1<sup>st</sup> October – 31<sup>st</sup> December 2015, presented for the Committee's information.

This report is supplemented by training available to all Members of the Council on treasury management on 26<sup>th</sup> January 2016.

### RECOMMENDATIONS

1	Members review the draft documents listed and identify any matters to be drawn to the attention of Cabinet on 16 <sup>th</sup> February 2016:
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	<ul style="list-style-type: none"> <li>• Draft Treasury Management Strategy 2016/17</li> <li>• Draft Treasury Management Policy Statement 2016-2019</li> <li>• Draft Treasury Management Practices and Schedules 2016-2019</li> </ul>
2	Members review the draft Treasury Management Mid-Year Report 2015/16 and identify any matters to be drawn to the attention of Cabinet on 16 <sup>th</sup> February 2016.
3	Members note the Treasury Management 2015/16 quarterly update.

## **REPORT DETAILS**

<b>1.00</b>	<b>EXPLAINING THE APPENDICIES</b>
	<b><u>BACKGROUND</u></b>
1.01	The Local Government Act 2003 requires all local authorities to have due regard to both the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (The CIPFA Code of Practice) and Welsh Government guidance on Local Authority Investments.
1.02	<p>The Council has adopted The CIPFA Code of Practice which requires:-</p> <ul style="list-style-type: none"> <li>• The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its treasury management activities.</li> <li>• The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled.</li> <li>• The Council to receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.</li> <li>• Responsibility for Treasury Management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Corporate Finance Manager, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's <i>Standard of Professional Practice on Treasury Management</i>.</li> <li>• A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the Audit</li> </ul>



	<p>Committee to be responsible for ensuring effective scrutiny of the treasury management function. The Audit Committee has previously agreed to include treasury management as a standing item on each quarterly agenda to receive an update.</p>
1.03	<p>The Welsh Government guidance on Local Authority investments requires that the Council prepares an Investment strategy before the start of each financial year which sets out the Council's policies for the prudent management of its investments, giving priority, firstly to the security of those investments (protecting the capital sum from loss), and secondly liquidity (keeping money readily available for expenditure). The generation of investment income is distinct from these prudential objectives, however provided that proper levels of security and liquidity are achieved, it may (but only then) be reasonable to seek the highest yield consistent with those priorities.</p> <p>The guidance stipulates that the investment strategy must also include the following:</p> <ul style="list-style-type: none"> <li>• Specified Investments</li> <li>• Non-specified Investments</li> <li>• Credit Risk Assessment</li> <li>• Investment Consultants</li> <li>• Investment Training</li> <li>• Investment of money borrowed in advance of need.</li> </ul>
	<p><b><u>CONSIDERATIONS</u></b></p> <p><b><u>2016/17 Treasury Management Policy, Strategy and Practices</u></b></p> <p><u>Treasury Management Strategy 2016/17</u></p>
1.04	<p>The 2016/17 Treasury Management Strategy is attached as Appendix 1 for review and discussion. The Strategy is updated and reported annually to Members in accordance with the CIPFA Code of Practice and Welsh Government guidance.</p>
1.05	<p>The Treasury Management Strategy details the approach that the Council will take for investing and borrowing over the next year, including the budgetary implications of the planned investment and borrowing strategy and a number of treasury management indicators that the CIPFA Code requires.</p>
1.06	<p>The contents and layout of the 2016/17 Strategy have not materially changed from that of the 2015/16 Strategy. Matters that merit the attention of Members along with any changes made are summarised below:-</p> <ul style="list-style-type: none"> <li>• Section 2 – Economic context, provided by Arlingclose the Council's treasury management advisor, estimates that the first rise in bank interest rates to be in quarter 3 of 2016 at 0.25%. The Strategy assumes that the average rate for investments in 2016/17 will be around 0.65%, and that the average rate for any new borrowing will be around 3.35%.</li> </ul>

	<ul style="list-style-type: none"> <li>• Section 4 – Local context. This section summarises the anticipated treasury position in 2016/17. Activity in 2016/17 will focus more on borrowing and less on investing than in recent years; as the Council’s requirement to borrow is forecast to grow due to a planned increase in capital expenditure, whilst there less surplus cash to invest as services plan to spend reserves.</li> <li>• Section 5 – Investment Strategy. Members will be aware from previous update reports that the consequences of the legislation introduced to reform procedures should financial institutions fail in the future (commonly referred to as ‘bail-in’), have led to an increase in risk associated with unsecured bank investments. The Council therefore aims to further diversify into more secure asset classes during 2016/17.</li> <li>• Section 6 - Borrowing Strategy, a new paragraph has been added explaining that the Council may arrange forward starting loans in 2016/17, if conditions are suitable. That is a future loan and associated interest rate may be agreed during 2016/17, but the cash wouldn’t be paid until it is required at some future date, which is pre agreed as part of the loan transaction. This would enable certainty of cost to be achieved, by fixing the interest rate, without suffering a cost of carry in the intervening period.</li> </ul>
1.07	<p>A training session open to all Members on treasury management was run by Arlingclose, the Council’s Treasury Management advisors, on the morning of 26<sup>th</sup> January. The aim of the workshop was to aid Members’ understanding of the Treasury Management Strategy.</p>
1.08	<p><u>Treasury Management Policy Statement 2016-19</u></p> <p>Attached at Appendix 2 for review and discussion is the Treasury Management Policy Statement to cover the 3 year period from 2016/17 to 2018/19. This document defines the Council’s treasury management activities, sets out the Council’s criteria to measure the effectiveness of treasury management activities and includes the Council’s high level policies for borrowing and investments. Once approved, the document will only be reported to Members during its lifetime in the event of any significant changes. The Policy Statement remains unchanged from the version approved 1<sup>st</sup> March 2013, which covered the 3 year period from 2013/14 to 2015/16.</p>
1.09	<p><u>Treasury Management Practices and Schedules 2016-19</u></p> <p>The Treasury Management Practices (TMPs) and accompanying schedules to cover the 3 year period from 2016/17 to 2018/19 are attached in Appendix 3 and Appendix 4 for review and discussion. As with the Policy Statement, once approved, this document will only be reported to Members during its lifetime in the event of any significant changes.</p> <p>The TMPs and schedules state how treasury management policies and objectives will be achieved and give specific details of the systems and routines employed and the records to be maintained including:-</p> <ul style="list-style-type: none"> <li>• TMP 1 Treasury risk management</li> </ul>

	<ul style="list-style-type: none"> <li>• TMP 2 Performance measurement</li> <li>• TMP 3 Decision-making and analysis</li> <li>• TMP 4 Approved instruments, methods and techniques</li> <li>• TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements</li> <li>• TMP 6 Reporting requirements and management information arrangements</li> <li>• TMP 7 Budgeting, accounting and audit arrangements</li> <li>• TMP 8 Cash and cash flow management</li> <li>• TMP 9 Money laundering</li> <li>• TMP 10 Staff training and qualifications</li> <li>• TMP 11 Use of external service providers</li> <li>• TMP 12 Corporate governance</li> </ul>
1.10	<p><b><u>Treasury Management 2015/16 Updates</u></b></p> <p>The draft Treasury Management Mid-Year Report for 2015/16 is attached as Appendix 5 for review. This will be reported to Cabinet and Council in February 2016.</p>
1.11	<p>The Mid-Year Report reviews the activities and performance of the treasury management operations during the period 1<sup>st</sup> April to 30<sup>th</sup> September 2015.</p>
1.12	<p>In summary, the key points of the Mid-Year Report are:</p> <ul style="list-style-type: none"> <li>• The UK economy remained resilient over the six month period. Although the rate of economic growth slowed, GDP has now increased for ten consecutive quarters. Inflation remains low, and briefly turned negative in April. There have been further improvements in the labour market, with unemployment decreasing and average earnings excluding bonuses rising in the three months to July. (Section 3)</li> <li>• Arlingclose at the time of writing (September) expected the first rise in UK interest rates in the second quarter of 2016 (Section 3). This has subsequently been revised (see paragraph 1.06 above).</li> <li>• Local authorities in Wales reached a voluntary agreement to change the financing arrangements for council housing in Wales in April as reported previously. For Flintshire this resulted in a settlement payment to Welsh Government of £79.2m on 2<sup>nd</sup> April 2015. This was financed with new long term borrowing from the Public Works Loans Board (PWLB), resulting in an increase in long term borrowing from £172.1m on 2<sup>nd</sup> April to £251.3m. There was no further borrowing activity during the period. (Section 4)</li> <li>• Investments have been made with UK banks and building societies up to periods of 12 months, as well as utilising investment opportunities afforded by money market funds, instant access accounts, Debt Management Office, other Local Authorities and other financial instruments such as Certificates of Deposit (CD's). The average investment balance for the period was £55.6m and the average rate of return was 0.48%. (Section 5)</li> </ul>

	<ul style="list-style-type: none"> <li>The treasury function operated within the limits detailed in the Treasury Management Strategy 2015/16.</li> </ul>
1.13	<p>Treasury Management 2015/16 Quarter 3 Update</p> <p>A statement setting out the Council's investments at 31<sup>st</sup> December 2015 is attached as Appendix 6. The investment balance at this time was £39m across 20 counterparties with an average interest rate of 0.54%.</p>
1.14	<p>A statement analysing the Council's long-borrowing portfolio as at 31<sup>st</sup> December 2015 is attached as Appendix 7. There has been no change in the third quarter, with total long-term borrowing remaining at £251.3m with a weighted average interest rate of 5.02%.</p>
1.15	<p>During the quarter debt rescheduling was considered as part of 2016/17 budget setting. Current market conditions have led to very low gilt yields which result in premiums being payable should the Council seek early repayment of debt which continue to be cost prohibitive.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	Financial implications are addressed in the report; no other resource implications directly as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	Arlingclose Ltd, being the Council's treasury management advisors.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Risk Management directly addressed within appendices including identification of risks and measures to mitigate likelihood and impact of risks identified.

<b>5.00</b>	<b>APPENDICES</b>
5.01	<ol style="list-style-type: none"> <li>Draft Treasury Management Strategy 2016/17</li> <li>Draft Treasury Management Policy Statement 2016-2019</li> <li>Draft Treasury Management Practices 2016-2019 Part 1: Principles</li> <li>Draft Treasury Management Practices 2016-2019 Part 2: Schedules</li> <li>Draft Treasury Management Mid-Year Report 2015/16</li> <li>Investment Portfolio as at 31 December 2015</li> <li>Borrowing Portfolio as at 31 December 2015</li> </ol>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p><b>Contact Officer:</b> Liz Thomas – Technical Finance Manager</p> <p><b>Telephone:</b> 01352 702289</p> <p><b>E-mail:</b> liz.thomas@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>Authorised Limit:</b> A statutory limit that sets the maximum level of external debt for the Council.</p> <p><b>Balances and Reserves:</b> Accumulated sums that are held, either for specific future costs or commitments (known as earmarked) or generally held to meet unforeseen or emergency expenditure.</p> <p><b>Bank Rate:</b> The official interest rate set by the Bank of England’s Monetary Policy Committee and what is generally termed at the “base rate”.</p> <p><b>Basis Point:</b> A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points.</p> <p><b>Bond:</b> A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.</p> <p><b>Capital Expenditure:</b> Expenditure on the acquisition, creation or enhancement of capital assets.</p> <p><b>Capital Financing Requirement (CFR):</b> The Council’s underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.</p> <p><b>Certificates of Deposits (CD’s):</b> A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks. The term of a CD generally ranges from one month to five years.</p> <p><b>Cost of Carry:</b> The “cost of carry” is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.</p> <p><b>Consumer Price Index (CPI):</b> The UK’s main measure of inflation (along with Retail Price Index or ‘RPI’) The Monetary Policy Committee of the Bank of England set the Bank Rate in order to try and keep CPI at or close to the target set by the Government. The calculation of CPI includes many items of normal household expenditure but excludes some items such as mortgage interest payments and Council Tax.</p>

**Credit Rating:** Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

**Corporate Bonds:** Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

**Counterparty List:** List of approved financial institutions with which the Council can place investments.

**Debt Management Office (DMO):** The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Facility (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign credit rating.

**Federal Reserve:** The US central bank, the equivalent of the Bank of England. (Often referred to as "the Fed").

**Financial Instruments:** Financial instruments are tradable assets of any kind. They can be cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash or another financial instrument

**Gilts:** Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. They are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

**LIBID:** The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).

**LIBOR:** The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

**LOBO:** Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.

**IFRS:** International Financial Reporting Standards.

**Maturity:** The date when an investment or borrowing is repaid.

**Maturity Structure / Profile:** A table or graph showing the amount (or percentage) of debt or investments maturing over a time period.

**Monetary Policy Committee (MPC):** Government Body that sets the Bank Rate. Its primary target is to keep inflation within 1% of a central target of 2%. Its secondary target is to support the Government in maintaining high and stable levels of growth and employment.

**Money Market Funds (MMF):** Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

**Minimum Revenue Provision (MRP):** An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

**Non Specified Investment:** Investments which fall outside the WG Guidance for Specified investments (below).

**Operational Boundary:** This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

**Premiums and Discounts:** In the context of local authority borrowing,  
(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and  
(b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

**Prudential Code:** Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

**Prudential Indicators:** Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

**Public Works Loans Board (PWLB):** The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

**Quantitative Easing (QE):** In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account,

while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy.

**Revenue Expenditure:** Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

**Retail Price Index (RPI):** A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent.

**Term Deposits:** Deposits of cash with terms attached relating to maturity and rate of return (Interest).

**Specified Investments:** Term used in the Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

**Supported Borrowing:** Borrowing for which the costs are supported by the government or third party.

**Supranational Bonds:** Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.

**Treasury Bills (T-Bills):** Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. They are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have an AAA-rating.

**Treasury Management Code:** CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.

**Treasury Management Practices (TMP):** Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.

**Temporary Borrowing:** Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.

**Unsupported Borrowing:** Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

**Yield:** The measure of the return on an investment instrument.





**FLINTSHIRE COUNTY COUNCIL**

**DRAFT  
TREASURY MANAGEMENT  
STRATEGY**

**2016/17**

## CONTENTS

<u>Section</u>		<u>Page</u>
1.0	Introduction	1
2.0	Economic Context	1
3.0	Current Treasury Portfolio	3
4.0	Local Context	4
5.0	Investment Strategy	5
6.0	Borrowing Strategy	12
7.0	Policy on the use of Financial Derivatives	15
8.0	Treasury Management Indicators	15
9.0	Other Matters	16
APPENDIX A – Debt Maturity Profile		19

## Treasury Management Strategy Report 2016/17

The Council is recommended to:

- approve the Treasury Management Strategy for 2016/17
- approve the Treasury Management Indicators for 2016/17

### 1.0 Introduction

In April 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

The successful identification, monitoring and control of risk are central to the Council's treasury management strategy as the Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

### 2.0 Economic Context (including Interest Rate Forecast – as provided by Arlingclose Ltd, November 2015).

**Economic background:** Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in November. Wages are growing at 2.4% a year, and the unemployment rate has dropped to 5.2%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 4.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was 2.1% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. Financial markets have reacted extremely negatively on concerns that the Chinese slowdown will present a significant drag on global growth. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators suggested recent global turbulence has not knocked the American recovery off course, although activity has weakened a little. The Federal Reserve raised policy rates at its meeting in December as expected, but accompanying statements suggested that the tightening cycle will be gradual and very much data dependent. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation and undertook further monetary easing late in the year.

**Credit outlook:** The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

**Interest rate forecast:** The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 1.8% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

Table 1: Interest rate forecast

	Bank Rate	3 month LIBID	12 month LIBID	20 year Gilt rate	50 year Gilt rate
Q1 2016	0.50	0.60	1.20	2.50	2.50
Q2 2016	0.50	0.70	1.35	2.55	2.55
Q3 2016	0.75	0.80	1.45	2.55	2.60
Q4 2016	0.75	0.95	1.55	2.60	2.65
Q1 2017	1.00	1.05	1.70	2.65	2.70
Q2 2017	1.00	1.15	1.80	2.70	2.75
Q3 2017	1.25	1.30	1.95	2.75	2.80
Q4 2017	1.25	1.40	2.00	2.80	2.85
Q1 2018	1.50	1.55	2.10	2.85	2.90
Q2 2018	1.50	1.65	2.15	2.90	2.95
Q3 2018	1.75	1.80	2.15	2.95	3.00
Q4 2018	1.75	1.85	2.15	2.95	3.00

of setting the budget, it has been assumed that new investments will be made at an average rate of 0.65%, and that new long-term loans will be borrowed at a weighted average rate of 3.35%.

### **3.0 Current Treasury Portfolio**

The Council's treasury portfolio as at 31<sup>st</sup> December 2015 was as follows:

Table 2: Current Treasury Portfolio

	Principal £m	Interest rate %
<b>Investments:</b>		
Call accounts	-	-
Money market funds	10.0	0.46
Short-term deposits	29.0	0.56
Long-term deposits	-	-
<b>Total Investments</b>	<b>39.0</b>	<b>0.54</b>
<b>Borrowing:</b>		
Short-term loans	-	-
Long-term PWLB loans (fixed)	222.36	5.26
Long-term PWLB loans (variable)	10.00	0.65
Long-term market loans (LOBOs)	18.95	4.53
<b>Total Borrowing</b>	<b>251.31</b>	<b>5.02</b>
<b>Net Borrowing</b>	<b>212.31</b>	

## 4.0 Local Context

Forecast changes in the sums in section 3 are shown in the balance sheet analysis in the table below.

Table 3: Balance Sheet Summary and Forecast

	<b>31.3.15 Actual £m</b>	<b>31.3.16 Estimate £m</b>	<b>31.3.17 Estimate £m</b>	<b>31.3.18 Estimate £m</b>	<b>31.3.19 Estimate £m</b>
Council Fund Capital Financing Requirement (Borrowing only)	159	174	181	183	185
Housing Revenue Account Capital Financing Requirement (Borrowing only)	24	108	116	128	135
<b>Capital Financing Requirement (Borrowing only)</b>	<b>183</b>	<b>282</b>	<b>297</b>	<b>311</b>	<b>320</b>
Less: Current borrowing	-172	-251	-251	-250	-250
<b>Funding Required</b>	<b>11</b>	<b>31</b>	<b>46</b>	<b>61</b>	<b>70</b>
Less: Usable reserves	-54	-35	-25	-18	-18
Less: Working capital	-4	-4	-4	-3	-3
<b>Investments / New borrowing (called the Liability Benchmark)</b>	<b>47</b>	<b>8</b>	<b>-17</b>	<b>-40</b>	<b>-49</b>

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing below the CFR, sometimes known as internal borrowing. Internal borrowing is currently cheaper and incurs lower credit risk than external long term borrowing.

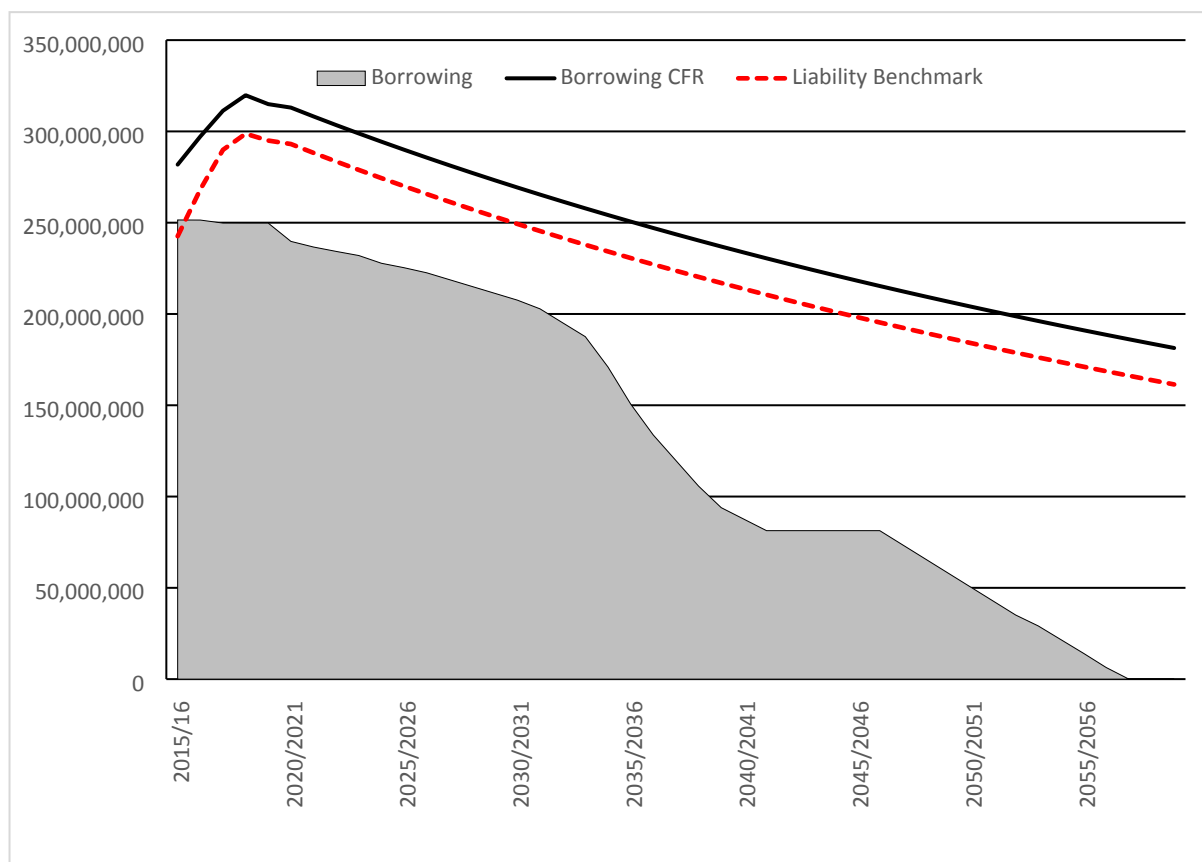
Table 3 shows the Authority's CFR increases sharply in 2015/16, this is linked with the capital programme due to the 21<sup>st</sup> century schools building programme and the capital payment required to exit the Housing Revenue Account (HRA) Subsidy system and introduce Self Financing for the HRA. The level of reserves the Authority has is expected to fall in 2015/16 as funding earmarked for specific purposes falls due for payment. The combination of the increase in capital expenditure and a reduction in reserves, results in:

- a reduction in investments in 2015/16 with further reductions expected in 2016/17,
- a sustained requirement for new borrowing between 2016/17 and 2018/19, possibly required in 2016/17 but more certainly in 2017/18.

The graph in table 4 shows the Council's anticipated liability benchmark over the next 50 years, being the net requirement for borrowing after considering resources available from reserves and working capital. The steep rise in the liability benchmark in 2015/16 corresponds with the need to borrow to fund the increase in capital expenditure described above. The strategy in 2016/17 and

over the medium term is to ensure that any new borrowing undertaken does not exceed the liability benchmark and cause the council to borrow more than it needs.

Table 4: Liability Benchmark - Flintshire County Council (January 2016)



The impact of the above will result in the focus of treasury management activity changing. In recent years attention will have been concentrated on investments, which will now switch to borrowing.

### Budget implications

The budget for investment income in 2016/17 is £65k, based on an average investment portfolio of £10m at an average interest rate of 0.65%. The total budget for loan interest paid in 2016/17 is £12.9m, based on a debt portfolio of £268.3m at an average interest rate of 4.68%. If levels of investments, borrowing and interest rates differ from those forecast, performance against budget will be correspondingly different.

## **5.0 Investment Strategy**

The Council holds surplus funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £42.7 and £70.9 million.

Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its

investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

### Strategy

Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure asset classes during 2016/17. This is especially the case for any longer-term investment made. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits and money market funds. This diversification will therefore represent a change in strategy over the coming year.

### Investment criteria and limits

The Council may invest its surplus funds with any of the counterparties in the following table, subject to the monetary and time limits shown.



Table 5: Investment criteria and limits

*(This table should be read in conjunction with the notes that follow it)*

Minimum Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
<b>UK Government</b>			£ Unlimited 50 years		
<b>AAA</b>	£4m	£7m	£7m	£4m	£4m 10 years
<b>AA+</b>	5 years	5 years	25 years	5 years	
<b>AA</b>	£4m 4 years	£7m 4 years	£7m 15 years	£4m 4 years	
<b>AA-</b>	£4m 3 years	£7m 3 years	£7m 10 years	£4m 3 years	
<b>A+</b>	£4m 2 years	£7m 2 years	£7m 5 years	£4m 2 years	£4m 5 years
<b>A</b>	£4m 1 year	£7m 1 year		£4m 1 year	
<b>A-</b>	£4m 6 months	£7m 6 months		£4m 6 months	
<b>Pooled Funds</b>	£7m per fund				
<b>BBB-</b>	The Council is restricted to overnight deposits at its' own current account bank with a limit of £5m where the banks lowest credit rating is BBB+, BBB or BBB- (or equivalent)				
<b>Unrated Local Authorities</b>			£4m 2 years		
<b>Unrated Other</b>	The Council may invest in any other unrated organisation, subject to: <ul style="list-style-type: none"> <li>• an external credit assessment and specific advice from the Authority's treasury management adviser (£1m each / 1 year limit)</li> <li>• a further policy framework for investing with any other organisations being developed (£100k each / 5 year limit)</li> </ul>				

### Credit Rating

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

### Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB+, BBB or BBB- are restricted to overnight deposits at the Authority's current account bank.

### Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

### Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

### Corporates

Loans, bonds and commercial papers issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

### Registered Providers

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Welsh Government or Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed. The Council will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

### Pooled Funds

Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the

services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

### Other Organisations

The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

### Foreign countries

Investments in foreign countries will be limited to those that hold an AAA or AA+ / Aa1 sovereign credit rating from all three major credit rating agencies, and to a maximum of £10 million per foreign country. Investments in countries whose lowest sovereign rating is not AAA will be limited to one year's duration. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

### Risk assessment and credit ratings

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,

- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it is likely to fall below the above criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

#### Other information on the security of investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of “high credit quality” are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

#### Specified investments

The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Council defines ‘high credit quality’ organisations as those having a credit rating of A- or higher that are, domiciled in the UK, or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of [A-] or higher.

## Non-Specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments in foreign currencies. Non-specified investments will therefore be limited to long term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure, such as money market funds and other pooled funds; and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below.

Table 6: Non-Specified Investment Limits

	Cash Limit
Total long-term investments	£10m
Total shares in pooled funds	£30m
Total investments without credit ratings or rated below A- (not including pooled funds)	£10m
Total non-specified investments	£50m

## Liquidity management

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

## Planned investment strategy for 2016/17

Treasury management staff will continue to seek out investments that meet the criteria detailed within this strategy whilst having full regard for the Council's cash flow requirements.

The cash flow forecast will be used to divide surplus funds into three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although

it should not be ignored. Instant access money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio.

## **6.0 Borrowing Strategy**

The Council currently holds £251.31m of long-term loans, as part of its strategy for funding previous years' capital programmes and HRA buy-out. The balance sheet forecast in section 4 shows that the Council may need to undertake new long term borrowing during 2016/17.

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which the funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

The Council's capital expenditure plans will be monitored throughout 2016/17 to inform and confirm the Council's long term borrowing need (figures in section 4 are an estimate). This is to ensure that the Council does not commit to long term borrowing too early and borrow unnecessarily which will be costly. The use of short-term borrowing will assist with such. This will be balanced against securing low long term interest rates currently being forecast.

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term instead. By doing so, the Council is able to reduce net borrowing costs (despite forgone investment income) and reduce overall treasury risk. Credit risk as a result of the bail-in legislation has increased as referred to in section 5, the planned borrowing strategy helps to mitigate the increased risk.

Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing costs are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis.

Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow for short periods of time (normally for up to one month) to cover unexpected cash flow shortages.

### Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB) and any successor body
- UK local authorities
- any institution approved for investments above
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Clwyd Pension Fund)
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable joint local authority bond issues.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

### LGA Bond Agency (Municipal Bond Agency)

The LGA Bond Agency is a Local Capital Finance Company established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities.

This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength instead. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

## LOBOs

The Authority holds £18.95m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2016/17, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

## Short-term and Variable Rate loans

These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators in section 9.

## Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

## Planned borrowing strategy for 2016/17

The Corporate Finance Manager will:

- Manage the Council's debt maturity profile, i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing with the limits stated in this Strategy Statement. Appendix A analyses the debt portfolio of the Council, as at 31st December, 2015.
- Effect any borrowing that maybe required in 2016/17 at the cheapest cost commensurate with future risk based on interest rate forecasts.
- Monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements, within the limits stated in this Strategy.
- Continue to monitor options for debt-restructuring and debt re-payment.

The Corporate Finance Manager will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions and actions taken under delegated powers to Cabinet via the Audit Committee.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of



finance, such as bond issues and bank loans, that may be available at more favourable rates.

Loans that present additional risk to the authority, such as lender's option borrower's option (LOBO) loans and variable rate loans will be restricted to the limit on the net exposure to variable interest rates in the treasury management indicators in section 9.

## **7.0 Policy on Use of Financial Derivatives**

In the absence of any legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

## **8.0 Treasury Management Indicators**

The Council measures and manages its exposures to treasury management risks using the following indicators. The Council is asked to approve the following indicators:

### Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposures	£325m	£350m	£360m
Upper limit on variable interest rate exposures	£60m	£60m	£60m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

### Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within five years	0%	30%
Five years and within 10 years	0%	50%
10 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

### Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long term principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on total principal invested beyond year end	£10m	£10m	£10m

Any long term investments carried forward from previous years will be included in each years limit.

### Borrowing limits

The Council is being asked to approve these Prudential Indicators as part of the Capital Programme report. However they are repeated here for completeness.

	2016/17	2017/18	2018/19
Operational boundary – borrowing	£270m	£295m	£305m
Operational boundary – other long-term liabilities	£10m	£10m	£10m
Operational boundary – TOTAL	£280m	£305m	£315m
Authorised limit – borrowing	£300m	£325m	£335m
Authorised limit – other long-term liabilities	£25m	£25m	£25m
Authorised limit – TOTAL	£325m	£350m	£360m

## **9.0 Other Matters**

The WG Investment Guidance requires the Council to note the following three matters each year as part of the investment strategy:

### Treasury Management Advisers

The Council's treasury management adviser, Arlingclose continues to provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is controlled by Financial Procedure Rules  
Investment training

The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.

#### Investment of Money Borrowed in Advance of Need

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

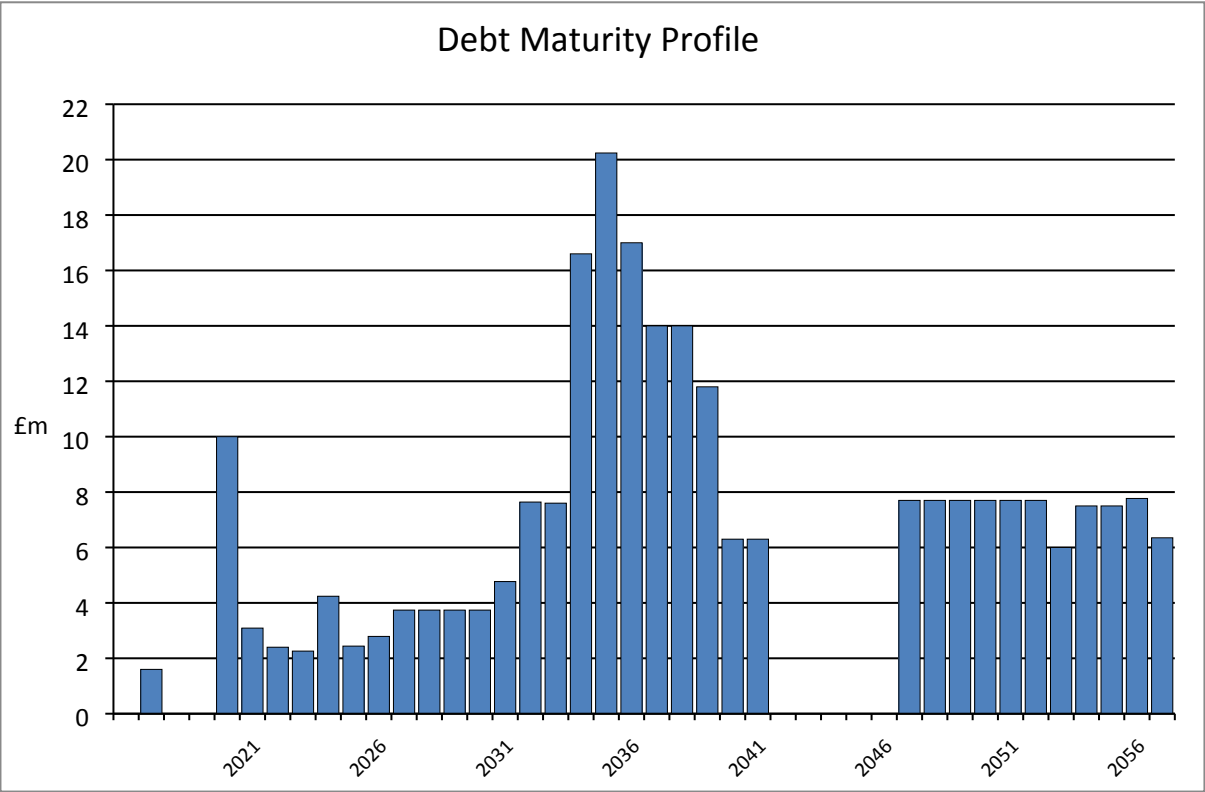
The total amount borrowed will not exceed the authorised borrowing limit of £360 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

## Other Options Considered

The WG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Corporate Finance Manager, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in the following table.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter periods.	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer periods.	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing if debt rescheduling costs weren't prohibitive	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

**APPENDIX A – DEBT MATURITY PROFILE**



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**FLINTSHIRE COUNTY COUNCIL**

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**TREASURY MANAGEMENT  
POLICY STATEMENT**

**2016 - 2019**

## **1.0 TREASURY MANAGEMENT POLICY STATEMENT**

The Council defines the policies and objectives of its treasury management activities as follows: -

- 1.1 "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
- 1.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
- 1.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 1.4 The Council greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.
- 1.5 The Council will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes to interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.
- 1.6 The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.
- 1.7 The Council will have regard to Welsh Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations in which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.
- 1.8 The Council has adopted the 2011 edition of the Chartered Institute of Public



Finance and Accountancy's Treasury Management in Public Services: Code of Practice and has included the Code's required clauses in its Financial Procedure Rules.

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# **TREASURY MANAGEMENT PRACTICES**

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## **Part 1: Main Principles**

**2016 - 2019**

**Flintshire County Council**

## Treasury Management Practices 2016 - 2019

### TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which this organisation will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

	<b>Page</b>
Treasury Management Practices (TMPs)	2
TMP 1 Treasury risk management	3- 4
TMP 2 Performance Measurement	5
TMP 3 Decision-making and analysis	5
TMP 4 Approved instruments, methods and techniques	5
TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements	5 – 6
TMP 6 Reporting requirements and management information arrangements	6 - 7
TMP 7 Budgeting, accounting and audit arrangements	7
TMP 8 Cash and cash flow management	7
TMP 9 Money laundering	7
TMP 10 Staff training and qualifications	7 - 8
TMP 11 Use of external service providers	8
TMP 12 Corporate governance	8

## **Treasury Management Practices 2016 - 2019**

### **TMP1 TREASURY RISK MANAGEMENT**

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

#### **[1] Credit and counterparty risk management**

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

#### **[2] Liquidity risk management**

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

#### **[3] Interest rate risk management**

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirement and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the

## **Treasury Management Practices 2016 - 2019**

management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

### **[4] Exchange rate risk management**

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

### **[5] Refinancing risk management**

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

### **[6] Legal and regulatory risk management**

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1.1 credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

### **[7] Fraud, error and corruption, and contingency management**

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

### **[8] Market risk management**

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

### **TMP2 PERFORMANCE MEASUREMENT**

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

### **TMP3 DECISION-MAKING AND ANALYSIS**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

### **TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1, Risk management.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

### **TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

## **Treasury Management Practices 2016 - 2019**

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The Chief Finance Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the schedule to this document. The Chief Finance Officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on treasury management.

### **TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The County Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

In addition to the above, the Audit Committee will receive regular monitoring reports on treasury management activities and risks. Audit Committee will also have responsibility for the scrutiny of treasury management policies and practices.

Treasury Management Indicators will be reported in the Strategy.

The present arrangements and the form of these reports are detailed in the schedule



## **Treasury Management Practices 2016 - 2019**

to this document.

### **TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

The Chief Finance Officer will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance Measurement, and TMP4 Approved instruments, methods and techniques. The Chief Finance Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

### **TMP8 CASH AND CASH FLOW MANAGEMENT**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [1] liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

### **TMP9 MONEY LAUNDERING**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

### **TMP10 STAFF TRAINING AND QUALIFICATIONS**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Finance Officer will recommend and implement the necessary arrangements.

## **Treasury Management Practices 2016 - 2019**

The Chief Finance Officer will ensure that committee/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

### **TMP11 USE OF EXTERNAL SERVICE PROVIDERS**

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

### **TMP12 CORPORATE GOVERNANCE**

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

# **TREASURY MANAGEMENT PRACTICES**

DRAFT

## **Part 2: Schedules**

**2016 - 2019**

**Flintshire County Council**

## Treasury Management Practice Schedules 2016 - 19

### TREASURY MANAGEMENT PRACTICES - SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by this organisation.

	<b>Page</b>
Treasury Management Practices – Schedules	2
TMP 1 Risk management	3-9
TMP 2 Performance Measurement	9 - 10
TMP 3 Decision-making and analysis	11 -12
TMP 4 Approved instruments, methods and techniques	12 -14
TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements	14 -18
TMP 6 Reporting requirements and management information Arrangements	18 -20
TMP 7 Budgeting, accounting and audit arrangements	21
TMP 8 Cash and cash flow management	21-22
TMP 9 Money laundering	22
TMP 10 Staff training and qualifications	22-23
TMP 11 Use of external service providers	23-24
TMP 12 Corporate governance	24
Appendix A – Definition of ratings	25-26

**TMP1 RISK MANAGEMENT**

**1 Credit & Counterparty Policies**

1. Criteria to be used for creating/managing approved counterparty lists/limits -
  - The Chief Finance Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.
  - Treasury Management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. The complete list is available in the Technical Accountancy Section. It should be noted that not all of these counterparties will be used. This depends on whether they are in the market at the time of investment and whether they are offering competitive rates.
  - The Council will use credit criteria in order to select creditworthy counterparties for placing investments.
  - Credit ratings will be used as supplied from Fitch, Moody's and Standard & Poors credit rating agencies.
  - The minimum level of credit rating for an approved counterparty will be as follows: -

## Treasury Management Practice Schedules 2016 - 19

Minimum Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
<b>UK Government</b>			£ Unlimited 50 years		
<b>AAA</b>	£4m 5 years	£7m 5 years	£7m 25 years	£4m 5 years	£4m 10 years
<b>AA+</b>					
<b>AA</b>					
<b>AA-</b>					
<b>A+</b>	£4m 2 years	£7m 2 years	£7m 5 years	£4m 2 years	£4m 5 years
<b>A</b>					
<b>A-</b>					
<b>Pooled Funds</b>	£7m per fund				
<b>BBB-</b>	The Council is restricted to overnight deposits at its' own current account bank with a limit of £5m where the banks lowest credit rating is BBB+, BBB or BBB- (or equivalent)				
<b>Unrated Local Authorities</b>			£4m 2 years		
<b>Unrated Other</b>	The Council may invest in any other unrated organisation, subject to: <ul style="list-style-type: none"> <li>an external credit assessment and specific advice from the Authority's treasury management adviser (£1m each / 1 year limit)</li> <li>a further policy framework for investing with any other organisations being developed (£100k each / 5 year limit)</li> </ul>				

A definition of the ratings can be found in appendix A.

### Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB+, BBB or BBB- are restricted to overnight deposits at the Authority's current account bank.

### Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

### Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

### Corporates

Loans, bonds and commercial papers issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

### Registered Providers

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Welsh Government or Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed. The Council will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

### Pooled Funds

Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify

## Treasury Management Practice Schedules 2016 - 19

into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

### Other Organisations

The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

### Foreign countries

Investments in foreign countries will be limited to those that hold an AAA or AA+ / Aa1 sovereign credit rating from all three major credit rating agencies, and to a maximum of £10 million per foreign country. Investments in countries whose lowest sovereign rating is not AAA will be limited to one year's duration. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

### Non-Specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments in foreign currencies. Non-specified investments will therefore be limited to long term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure, such as money market funds and other pooled funds; and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below.

#### Non-Specified Investment Limits

	Cash Limit
Total long-term investments	£10m
Total shares in pooled funds	£30m
Total investments without credit ratings or rated below A- (not including pooled funds)	£10m
Total non-specified investments	£50m

## 2. Approved methodology for changing limits and adding/removing counterparties

Credit ratings for individual counterparties can change at any time. The Chief Finance Officer is responsible for applying the stated credit rating criteria in 1.1



## Treasury Management Practice Schedules 2016 - 19

for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or take-overs. The Chief Finance Officer will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or take-overs in accordance with the criteria in 1.1.

3. Details of Credit Rating Agencies' services or other services which provide current credit ratings and updates on changes.
  - Ratings from the three agencies are updated monthly by the Council's treasury management adviser; however, they will provide immediate notification of any changes which affect Flintshire County Council counterparties. If a counterparty no longer meets the investment criteria, no further investments will be made with that counterparty and consideration will be given to recalling the monies. If a counterparty is being reviewed for a possible downgrade outside the criteria no more investments will be made.
  - The Council's treasury management adviser will also inform the Chief Finance Officer of any other market information that they have (e.g. Credit Default Swap prices, news reports and opinion, balance sheet analysis in the absence of credit ratings) which may require credit ratings to be overridden and no further investment to be made with that counterparty.

### 1.2 Liquidity

1. Amounts of approved minimum cash balances and short-term investments
  - The Council manages its cash balances on a daily basis, dependent upon cash flow demands. The objective is to achieve a zero cash balance each day by means of temporary investments, borrowing or use of call accounts. Temporary investments are cash flow driven with the objective of ensuring that future temporary borrowing is minimised.
2. Details of:
  - Standby facilities - Short-term borrowing undertaken.
  - Short-term borrowing facilities - short term borrowing will be arranged for any overdrawn balance through the money market if no call money is available.
  - Insurance/guarantee facilities - not required.
  - Other contingency arrangements - negotiations with the Council's bankers.
  - Call Accounts and Money Market Funds (subject to ratings and sector limits).

## Treasury Management Practice Schedules 2016 - 19

### 1.3 Interest Rate

1. Details of approved interest rate exposure limits -
  - The upper limit on fixed interest rate exposures is £325 million.
  - The upper limit on variable interest rate exposures is £60 million.
2. Trigger points and other guidelines for managing changes to interest rate levels
  - This is monitored in conjunction with the Council's treasury advisers through the London money market on a daily basis.
  - The management of a balanced investment portfolio which retains a mix of long term investments (fixed rate) and shorter term (variable rate) investments which are variable to protect against interest risk.

### 1.4 Exchange Rate

Approved criteria for managing changes in exchange rate levels -

- The Council does not make payments or receive foreign currency in sufficient levels that warrant currency management e.g. hedging

### 1.5 Refinancing

1. Debt/other capital financing maturity profiling, policies and practices.
  - To manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing.
2. Projected capital investment requirements.
  - The borrowing requirement is determined as part of the Capital Programme.
3. Policy concerning limits on revenue consequences of capital financing.
  - This is part of the ongoing budget monitoring process

### 1.6 Legal & Regulatory

References to relevant statutes and regulations

- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Chief Finance Officer to be satisfied, by reference to the Monitoring Officer, the Authority's legal department and external advisors as appropriate, that the proposed transaction does not breach statute, external regulations or the

## Treasury Management Practice Schedules 2016 - 19

Authority's Financial Procedures.

- The Council's legal powers and regulatory requirements come from –
  - ❖ Local Government Act 2003  
[http://www.opsi.gov.uk/acts/acts2003/pdf/ukpga\\_20030026\\_en.pdf](http://www.opsi.gov.uk/acts/acts2003/pdf/ukpga_20030026_en.pdf)
  - ❖ Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (and subsequent amending regulations)  
[http://www.opsi.gov.uk/legislation/wales/wsi2003/wsi\\_20033239\\_en.pdf](http://www.opsi.gov.uk/legislation/wales/wsi2003/wsi_20033239_en.pdf)
  - ❖ Welsh Government "Guidance on Local Government Investments"  
<http://wales.gov.uk/topics/localgovernment/publications/guideinvest/?jsessionid=mp3KKnDTyn91SG3PQvIFrpqnBVTnlXvyGH1pynJcCpJg5n9hL0tP!514291769?lang=en>
  - ❖ CIPFA "Treasury Management in the Public Services Code of Practice"
  - ❖ CIPFA "Prudential Code for Capital Finance in Local Authorities"

Hard copies are available in Technical Accountancy.

### 1.7 Fraud, error and corruption, and contingency management

1. Details of systems and procedures to be followed, including internet services.
  - These are documented in the Treasury Management Operational Guidelines.
2. Emergency and contingency planning arrangements
  - This process is currently under review.
3. Fraud, Error & Corruption.
  - There is a system of internal control in place to prevent and identify fraud and error.
  - Any issue identified will be immediately reported to the Chief Finance Officer and Head of Internal Audit and subsequently to Audit Committee and Council.

### 1.8 Market Value of Investments

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Government Issue Long Term Stock - GILTS, Certificates of Deposit - CDs, etc.)

- No limits are set, current criteria for these investments does not allow exposure to high fluctuations in value.

## TMP 2 PERFORMANCE MEASUREMENT

### 2.1 Performance Measurement

## Treasury Management Practice Schedules 2016 - 19

1. The Council's treasury management advisers recommended the following for use as benchmarks against which to compare performance. For investments, the most commonly used benchmark is the 3 month London Inter-Bank Bid (LIBID) rate.
2. In the annual Treasury Management Outturn Report, investment and borrowing rates are analysed against the above recommended rates and with previous years.
3. Health checks are undertaken by the Council's treasury management advisers.

### 2.2 Value for Money

Frequency for reviewing and tendering for the following services:

- Banking services - tendered every 5 years.
- Money-broking services - annual review.
- Treasury advisers services – tendered every 3 years.
- External Cash Managers - none currently employed but this will be analysed as part of a continuous review.

### 2.3 Methods to be employed for measuring the performance of the organisation's Treasury Management activities

1. The Chief Finance Officer will receive a monthly update on Treasury Management from the Finance Manager – Technical Accounting.
2. The performance of treasury management will be reported quarterly to the Audit Committee and then to Cabinet and Council in the Mid-year Report and Annual Outturn Report using the performance measures outlined in 2.1.

### 2.4 Benchmarks and calculation methodology:

1. Debt management:
  - Average rate on all external debt.
  - Average rate on external debt borrowed in previous financial year.
  - Average rate on internal borrowing.
  - Average period to maturity of external debt.
  - Average period to maturity of new loans in previous year.

2. Investment:

The performance of investment earnings will be measured against the following benchmarks: -

- 3 month LIBID rate.

### TMP 3 DECISION-MAKING AND ANALYSIS

#### 3.1 Funding, borrowing, lending and new instruments/techniques:

1. Records to be kept:
  - These are documented in the Treasury Management Operational Guidelines. All records are kept to provide a full audit trail for all Treasury decisions.
2. Processes to be pursued:
  - All reports on Treasury Management issues are submitted to the Chief Finance Officer for decision making
3. Issues to be addressed:
  - In respect of every decision made the Council will:
    - a. Above all be clear about the nature and extent of the risks to which the Council may become exposed
    - b. Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
    - c. Be content that the documentation is adequate both to deliver the Council's objectives and protect the organisation's interests, and to deliver good housekeeping
    - d. Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
    - e. Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.
  - In respect of borrowing and other funding decisions, the Council will:
    - a. Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
    - b. Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
    - c. Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
    - d. Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets.
  - In respect of investment decisions, the organisation will:
    - a. Consider the optimum period, in the light of cash flow availability and prevailing market conditions.

## Treasury Management Practice Schedules 2016 - 19

- b. Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.
4. Considerations to be made before each temporary borrowing and investment decision.
  - Borrowing
    - a. Are funds available in call accounts?
    - b. Arrange temporary borrowing through a broker for the shortest period of time at the lowest rate of interest available.
  - Investing
    - a. Establish funds available to be invested
    - b. Establish a maturity date using cash flow and the Council's treasury advisers monthly investment strategy
    - c. Using the Ratings spreadsheet – Headroom available with each counterparty
    - d. Check the credit ratings and other market information available for the chosen counterparty.
    - e. Use a broker to find the highest rate of interest for the requirements above
    - f. If after the above, funds still cannot be placed and call accounts and Money Market Funds are full, then invest with DMO.

### TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

#### 4.1 Approved activities of the Treasury Management operation

All borrowing is undertaken in accordance with the Local Government Act 2003 section 1 and all investments undertaken in accordance with section 12.

The approved activities are:

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

### 4.2 Approved Instruments for Borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB) and any successor body
- UK local authorities
- any institution approved for investments above
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Clwyd Pension Fund)
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable joint local authority bond issues.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

### 4.3 Approved Instruments for Investments

The annual Treasury Management Strategy provides details of specified and non-specified investments and the maximum limits for each, as is required under Guidance issued by the Welsh Government. The approved investment instruments are -

- Fixed Term Deposits
- Certificates of Deposit
- Bank Accounts (Instant Access & Notice Accounts)
- Pooled Investment Vehicles (Such as Money Market Funds)
- U.K. Treasury Bills
- Loans
- Bonds
- Reverse Repurchase Agreements
- Commercial Papers

### 4.4 Approved Techniques

- Forward dealing up to 364 days;
- Callable deposits.

### 4.5 Approved methods and sources of raising capital finance

Finance will only be raised in accordance with the Prudential Code for Capital

## Treasury Management Practice Schedules 2016 - 19

Finance, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

### **On Balance Sheet**

Public Works Loan Board (PWLB)  
European Investment Bank (EIB)  
Local Authorities  
Banks  
Building Societies  
Pension Funds  
Stock issues  
Negotiable Bonds  
Internal sources (capital receipts & revenue balances)  
Sterling commercial paper  
Sterling medium term notes  
Finance Leases

### **Off Balance Sheet**

Deferred Purchase

### **Other Methods of Financing**

Government and EC Capital Grants  
Lottery monies  
Private Finance Initiative (PFI)

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Finance Officer has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from approved sources.

## **TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

### **5.1 Limits to Responsibilities/Discretion at Committee/Cabinet levels**

#### **1. County Council**

The Council is responsible for:-

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of annual policy and strategy.
- Approval of/amendments to the organisation's adopted clauses, treasury management policy and strategy.
- Budget consideration and approval.
- Approval of the division of responsibilities.



## Treasury Management Practice Schedules 2016 - 19

### 2. Cabinet

The Cabinet is responsible for:

- Receiving reports from the Chief Finance Officer informed by the deliberations of the Audit Committee on the implementation and regular monitoring of its treasury management policy, strategy and practices.
- Consideration of Treasury Policy and Strategy for approval by Council.

### 3. Audit Committee

The Audit Committee is responsible for –

- Reviewing the treasury management policy and practices and making recommendations to Cabinet.
- Receiving and reviewing regular monitoring reports.

### 5.2 Principles and practices concerning segregation of duties

<b>Procedure</b>	<b>Regular</b>	<b>Trained in Absence</b>
Cash Balances	Accounting Technician	Accounting Technician/Technical Accountant
Dealing and Limit Calculations	Accounting Technician	Accounting Technician/Technical Accountant
Logotech	Accounting Technician	Accounting Technician/Technical Accountant
Dealing Check	Accounting Technician	Accounting Technician/Technical Accountant/Accountancy Assistant
Dealing Authorisation	8 Authorised Bank Signatories (Chief Officer (People & Resources), Corporate Finance Manager, 6 Finance Managers)	
Funds Transfer Operators	Finance Assistant	3 Accounting Technicians
Funds Transfer Approval	6 Accountants	
Bankline System Administrators	Accountant (Systems)	Accounting Technician

### 5.3 Statement of duties/responsibilities of each Treasury post

#### 1. Chief Finance Officer

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy and strategy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Approving the selection of external service providers (within the Council's Contract Procedure Rules) and agreeing terms of appointment.

#### 2. Finance Manager - Technical Accounting

- To deputise for the Chief Finance Officer.
- To advise the Chief Finance Officer in the discharge of his/her duties.
- Regularly review the Treasury Management function.
- Submitting management information reports to the Chief Finance Officer.
- Drafting reports for Audit Committee, Cabinet and Council.
- Review a monthly report from the Technical Accountant on the performance of the Treasury Management function.

#### 3. Technical Accountant

- Supervise treasury management staff.
- Review the draft report on the performance of the Treasury Management function.
- Identify and recommend opportunities for improved practices.
- Ensure that the day to day activities accord with the Treasury Management Policy Statement and Practices.

#### 4. Accounting Technician

- Execution of transactions.
- Adhere to agreed policies and practices on a day-to-day basis.
- Maintain relationships with counterparties and external service providers.
- Draft reports for Audit Committee, Cabinet and Council.
- Produce cash flow projections and monitor performance.
- Report on the performance of the treasury management function.

### 5. Other Officers

- To deputise as necessary for the above posts, adhering to their duties and responsibilities.

### 5.4 Dealing Limits

As outlined in 1 - Credit and Counterparty Policies

### 5.5 List of Approved Brokers

Four approved brokers are currently used by the Council (see 11.2).

- ICAP Limited
- Martin Brokers (UK) Plc
- Prebon Marshall Yamane (UK) Limited
- Tradition (UK) Ltd

### 5.6 Policy on Brokers' Services

Reviewed annually.

### 5.7 Policy on taping conversations

No conversations are currently taped

### 5.8 Direct Dealing Practices

This is undertaken as and when required to maximise investment return

### 5.9 Settlement transmission procedures

Standard Settlement Instructions

### 5.10 Documentation Requirements

- Flintshire CC Treasury Management Policy Statement.
- Flintshire CC Treasury Management Annual Strategy.
- Flintshire CC Treasury Management Annual Outturn Report.
- Treasury Management Health checks.
- Loans and Treasury Management System Manual (LOGOTECH).
- Manual Diary and Cash Flow Statement (LOGOTECH).
- Money Market Dealing Form.
- Loans Outstanding Form / Limit Calculations.
- List of Brokers and Telephone Numbers.
- Approved Counterparties (Regular update from TM Advisers).
- Outstanding and Matured Investments/Borrowing File.
- Previous TM Consultants Correspondence Files.

## Treasury Management Practice Schedules 2016 - 19

- Arlingclose Consultancy Services Correspondence File (TM Advisers).
- Treasury Management Operational Guidelines.
- Treasury Management (Long Term Borrowing) Operational Guidelines.

### 5.11 Arrangements concerning the management of third-party funds.

Third party funds are included in the net daily bank balance and the funds are utilised by the Council on that basis. Interest is paid as follows -

- Optec Youth Exchange Fund – average monthly rate, quarterly.
- Insurance Fund – average seven day rate, annually.

## TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

### 6.1 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be scrutinised by Audit Committee, submitted to the Cabinet and then to the County Council Committee for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this organisation may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy is concerned with the following elements:
  - the prospects for interest rates;
  - the limits placed by this organisation on treasury activities
  - the expected borrowing strategy;
  - the expected investment strategy;
  - the expectations for debt rescheduling;
  - any extraordinary treasury issue.
  - Treasury Management Indicators.
4. The Treasury Management Strategy will establish the expected move in interest rates (using all available information such as published interest rate forecasts where applicable).

### 6.2 Prudential Code for Capital Finance

1. In accordance with legislation, the Council is required to approve key indicators and limits for the Prudential Code for Capital Finance. These are listed below and reported in the Prudential Indicators Report.

## Treasury Management Practice Schedules 2016 - 19

- Estimates of Capital Expenditure
- Ratio of financing costs to net revenue stream
- Incremental impact of capital investment decisions on council tax/housing rents
- Capital financing requirement
- Authorised limit for external debt
- Operational Boundary for external debt

The following are within the Treasury Management Code.

- Upper limit on fixed interest rate exposures
  - Upper limit on variable interest rate exposures
  - Upper and lower limits for maturity structure of borrowing
  - Limit for principal sums invested for periods longer than 364 days
2. The Chief Finance Officer is responsible for incorporating the relevant limits for the Treasury Management Code into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Chief Finance Officer shall submit the changes for scrutiny by the Audit Committee and recommendation by the Cabinet before submission to County Council for approval.

### 6.3 Annual Investment Strategy

The Welsh Government requires the documentation of an Annual Investment Strategy including the following:

- Specified Investments – Investments offering high security and liquidity
- Non-specified Investments – Investments with greater potential risk
- Investments which can be prudently committed for longer than 1 year.
- Credit Risk Assessment.
- Use of Investment Consultants.
- Investment Training.
- Investment money borrowed in advance of need.

### 6.4 Annual Report on Treasury Management Activity

An annual report will be presented to the Audit Committee, Cabinet and then the County Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a comprehensive picture for the financial year of all treasury policies, plans, activities and results
- transactions executed and their revenue (current) effects
- report on risk implications of decisions taken and transactions executed
- monitoring of compliance with approved policy, practices and statutory / regulatory requirements

## Treasury Management Practice Schedules 2016 - 19

- monitoring of compliance with powers delegated to officers
- degree of compliance with the original strategy and explanation of deviations
- explanation of future impact of decisions taken on the organisation
- measurements of performance
- report on compliance with CIPFA Code recommendations

The report will be subject to review by the Audit Committee

### 6.5 Mid-Year Review

A mid-year report will be presented to the Audit Committee, Cabinet and Council, which will include the following:

- activities undertaken
- variations (if any) from agreed policies/practices
- interim performance report
- regular monitoring
- monitoring of treasury management indicators for local authorities.

The report will be subject to review by the Audit Committee

### 6.6 Management Information Reports

The Technical Accountant will report management information to the Finance Manager - Technical Accountancy monthly for review. The Finance Manager Technical Accountancy will report monthly to the Chief Finance Officer.

### 6.7 Presentation of Reports

As a minimum:

The County Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

In addition to the above, the Audit Committee and Cabinet will receive regular monitoring reports on treasury management activities and risks. Audit Committee will also have responsibility for the scrutiny of treasury management policies and practices.

Treasury Management Indicators will be reported in the strategy.

**TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

**7.1 Statutory/ Regulatory Requirements**

The Treasury Management part of the statement of accounts has been prepared in accordance with the accounting policies applicable to local authorities.

**7.2 Accounting Practices and Standards**

The accounts are prepared in accordance with the CIPFA Treasury Management in the Public Sector Code of Practice, supported by guidance notes on the application of accounting standards.

**7.3 Budget Monitoring**

The budget for treasury management activities is monitored on a monthly basis through the Central Loans and Investment Account (CLIA).

**TMP 8 CASH AND CASH FLOW MANAGEMENT**

**8.1 Arrangements for preparing/submitting cash flow statements**

Annual cash flow prepared before the start of the financial year and updated throughout the year.

**8.2 Content and frequency of cash flow budgets**

All known cash flow factors are included for the coming financial year.

**8.3 Listing of sources of information**

Correspondence from external organisations and internal departments, together with various information extracted from the Annual Budget Book.

External –

- Welsh Government
- North Wales Police
- North Wales Fire Authority

Internal –

- Payroll
- Pensions
- Council Tax
- Creditors

## **Treasury Management Practice Schedules 2016 - 19**

### **8.4 Bank statement procedures**

All bank statement information is obtained electronically from the NatWest Bankline website.

### **8.5 Procedures for banking of funds**

All day to day treasury management transactions are paid and received by the Clearing House Automated Payments System (CHAPS).

### **8.6 Cash Flow Management**

Arrangements as detailed in section 3.1.4

### **8.7 Debtors and Creditors**

Debtors and Creditors are monitored so that any significant moves can be prepared for. Creditors provide warning of payments 2 days in advance.

## **TMP 9 MONEY LAUNDERING**

### **9.1 Procedures for establishing identity/authenticity of Lenders**

1. The Council does not accept loans from individuals. All loans are obtained from the PWLB or from authorised institutions on the FSA Register which is a public record of financial service firms, individuals and other bodies which fall under its regulatory jurisdiction as defined in the Financial Services & Markets Act 2000 (FSMA). This Act came into force on 1<sup>st</sup> December 2001.
2. Any borrowing undertaken from the money markets is through money brokers, who are also authorised and regulated by the Financial Services Authority. This adds a further layer of protection as the broker vets the institutions involved in any transactions.

## **TMP 10 STAFF TRAINING AND QUALIFICATIONS**

### **10.1 Details of approved training courses**

1. Reviewed as part of the annual Employee Appraisal process. The Council's treasury advisers also provide training on treasury issues to staff when required.
2. Flintshire County Council is a member of the CIPFA Treasury Management Network. Treasury officers receive weekly updates from the Network and attend seminars organised by the Network, as required.

### **10.2 Records of training received by Treasury staff**

All training is recorded on a departmental database.



### 10.3 Approved qualifications for Treasury staff

All treasury officers are qualified to AAT Technician level as a minimum.

### 10.4 Training of Members

Audit Committee Members will receive a quarterly Treasury Management report and training will be given as required. Other Members will be invited to attend training and receive treasury reports as outlined in these practices.

### 10.5 Statement of Professional Practice (SOPP)

1. Where the Chief Finance Officer is a member of CIPFA, there is a professional need for the Chief Finance Officer to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

## TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

### 11.1 Details of contracts with Service Providers, including Bankers, Brokers, Consultants & Advisers

#### 1. Banking services:

- National Westminster Bank Plc
- Contract commenced January 2015 to run for 3 years.
- Cost of core service - £50,000 p.a.
- Payments due on an ongoing basis throughout the year

#### 2. Money-broking services:

The following money market brokers' services are utilised for day to day transactions as and when required.

- ICAP plc
- Martin Brokers (UK) plc
- Prebon Marshall Yamane (UK) Limited
- Tradition UK Limited

#### 3. Treasury Consultant services:

- Arlingclose Consultancy Services
- Contract commenced 1st May 2010 for 3 years with the option exercised to extend for a further 2 years.
- Cost of service - £9,900 plus VAT per annum

## **Treasury Management Practice Schedules 2016 - 19**

- Payments due quarterly

### **11.2 Procedures and frequency for tendering services**

See TMP2 Performance Measurement section (2.2) for full details of services tendered. The process must comply with the Council's Contract Procedure rules.

## **TMP 12 CORPORATE GOVERNANCE**

### **12.1 List of documents to be made available for public inspection**

- 12.1.1 Treasury Management Policy Statement
- 12.1.2 Treasury Management Strategy
- 12.1.3 Treasury Management Practices
- 12.1.4 Treasury Management Mid Year Report
- 12.1.5 Treasury Management Annual Outturn Report

## APPENDIX A

### Definition of Ratings

#### Fitch Long Term

- **AAA** -Highest credit quality. Rating denotes the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. The capacity is highly unlikely to be adversely affected by foreseeable events.
- **AA** - Very high credit quality. Rating denotes expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
- **A** - High credit quality. Rating denotes expectation of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
- **BBB** - Good quality rating. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

The modifiers "+" & "-" may be appended to any of the ratings above to denote a relative status within major categories.

#### Moody's Long Term

- **Aaa** - Judged to be one of the highest quality, with minimal credit risk
- **Aa** - Judged to be of high quality and are subject to very low credit risk
- **A** - Considered upper-medium grade and are subject to low credit risk
- **Baa** - Offers adequate credit quality. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time.

Moody's appends numerical modifiers 1, 2 and 3 to each rating classification. 1 indicates that the obligation ranks in the higher end of its category, 2 mid-range and 3 a ranking in the lower end of that category.

#### Standard & Poors Long Term

- **AAA** - An obligor rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- **AA** - An obligor rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

## Treasury Management Practice Schedules 2016 - 19

- **A** - An obligor rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
- **BBB** - An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

**Plus (+) or minus (-)** The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories



**FLINTSHIRE COUNTY COUNCIL**

**TREASURY MANAGEMENT**

**DRAFT  
MID YEAR REPORT 2015/16**

## **1.00 PURPOSE OF REPORT**

- 1.01 To provide members with a mid-year update on matters relating to the Council's Treasury Management function.

## **2.00 BACKGROUND**

- 2.01 Treasury management comprises the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 2.02 The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.
- 2.03 The Council's policy is to appoint external consultants to provide advice on its treasury management function. The current external adviser is Arlingclose Ltd.
- 2.04 The Council has adopted the 2012 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to approve a treasury management strategy before the start of each financial year, a mid-year report, and an annual report after the end of each financial year.
- 2.05 In addition, the Welsh Government (WG) Guidance on Local Government Investments recommends that local authorities amend their investment strategies in light of changing internal or external circumstances.
- 2.06 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.
- 2.07 The Council approved the 2015/16 Treasury Management Strategy at its meeting on 17<sup>th</sup> February 2015.

## **3.00 ECONOMIC & INTEREST RATE REVIEW APRIL – SEPTEMBER 2015.**

*Provided by Arlingclose Ltd the Council's Treasury Management advisors.*

### **Global:**

As the year began, economic data was largely overshadowed by events in Greece. Markets' attention centered on the never-ending Greek issue stumbled from turmoil to crisis, running the serious risk of a disorderly exit from the Euro. The country's politicians and the representatives of the 'Troika' of its creditors - the European

Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) – barely saw eye to eye. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. Prime Minister Tsipras blindsided Greece's creditors by calling a referendum on 5th July on reform proposals which by then were off the table anyway. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. This U-turn saw a revolt within the ruling Syriza party and on 27th August, Alexis Tsipras resigned from his post as Prime Minister of Greece after just eight months in office by calling a snap election, held on 20th September. This gamble paid off as Tsipras led his party to victory once again, although a coalition with the Independent Greeks was needed for a slim parliamentary majority. That government must now continue with the unenviable task of guiding Greece through the continuing economic crisis – the Greek saga is far from over.

The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported \$3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24<sup>th</sup> August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

#### UK Economy:

The economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.7%. Q2 2015 GDP growth bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.4%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly

turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's projections for inflation remained largely unchanged from the May report with them expecting inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

The US economy slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at a twice-revised 3.9% (annualised). This was largely due to a broad recovery in corporate investment alongside a stronger performance from consumer and government spending and construction and exports. With the Fed's decision on US interest rate dependent upon data, GDP is clearly supportive. However it is not as simple as that and the Fed are keen to see inflation rise alongside its headline economic growth and also its labour markets. The Committee decided not to act at its September meeting as many had been anticipating but have signalled rates rising before the end of the year.

*Market reaction:*

Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August and September. Bond markets were also distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.



### Outlook for Q3 and Q4 2015/16:

Arlingclose's expectation for the first rise in the Bank Rate (interest base rate) remains the second calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited. The appropriate level for Bank Rate for the post-crisis UK economy is likely to be lower than the previous norm. We would suggest this is between 2.0% and 3.0%. There is also sufficient momentum in the US economy for the Federal Reserve to raise interest rates in 2015, although risks of issues from China could possibly push this back.

The weak global environment and resulting low inflation expectations are likely to dampen long term interest rates. We project gilt yields will follow a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued. The uncertainties surrounding the timing of UK and US interest rate rises, and the Chinese stock market-led turmoil, are likely to prompt short term volatility in gilt yields.

The table below details the latest forecast for the Bank of England base rate as provided by our advisors Arlingclose:

	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18
Interest Rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%

## **4.00 BORROWING REQUIREMENTS AND DEBT MANAGEMENT**

### 4.01 PWLB (Public Works Loans Board) Certainty Rate Update.

The Authority qualified for borrowing at the 'Certainty Rate' (0.2% below the PWLB standard rate) for a 12 month period from 1<sup>st</sup> November 2014. In August 2015, the Authority submitted its application to WG along with the 2015-16 Capital Estimates Return to access this reduced rate for a further 12 months from 1<sup>st</sup> November 2015.

### 4.02 Borrowing Activity to 30<sup>th</sup> September 2015.

The total long term borrowing outstanding, brought forward into 2015/16 totalled £172.1 million. As reported in the 2015/16 Treasury Management Strategy, the UK and Welsh Governments, along with all 11 stock retaining authorities in Wales were preparing to sign a voluntary agreement to change the financing arrangements for council housing in Wales in early 2015/16.

The negative subsidy system in operation, which required Flintshire to make annual payments of circa £6m in to Welsh Government ceased at the end of 2014/15. The Council was required to buy itself out of the arrangement by making a one-off

'settlement payment' to the Welsh Government on 2<sup>nd</sup> April 2015.

Part of the agreement was that the Council would borrow in full for the settlement payments from the PWLB at special Welsh HRA Subsidy Reform interest rates. These were set at a margin above PWLB Standard rates due to the methodology adopted by the Welsh Government and HM Treasury in determining the settlement amounts.

Flintshire's settlement payment amounted to £79.2m, and the Council was required to draw down loans that would deliver a minimum interest payment to the PWLB of £3.3m for each of the first five years following settlement.

The agreement will generate revenue savings allowing the Council to increase its investment in existing stock and support the delivery of additional supply of housing.

- 4.03 Loans with the Public Works Loans Board are in the form of fixed rate (£222.35m) and variable rate (£10m). The remaining £18.95m is variable in the form of Lobo's (Lender's Option, Borrower's Option). The Council's average borrowing rate is currently 5.02%.

	Balance 01/04/2015 £m	Debt Maturing £m	New Debt £m	Balance 30/09/2015 £m
<b>Long Term Borrowing</b>	172.1	0.00	79.2	251.3
<b>TOTAL BORROWING</b>	<b>172.1</b>	<b>0.00</b>	<b>79.2</b>	<b>251.3</b>
<b>Other Long Term Liabilities *</b>	7.1	0.00	0.00	7.1
<b>TOTAL EXTERNAL DEBT</b>	<b>179.2</b>	<b>0.00</b>	<b>0.00</b>	<b>258.4</b>
<b>Increase/ (Decrease) in Borrowing £m</b>				<b>79.2</b>

- 4.04 The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

- 4.05 No other new long term borrowing has been undertaken so far during 2015/16.

Affordability (interest costs charged on new loans) and the "cost of carry" (costs associated with new loans) remain important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

#### 4.06 Loans at Variable Rates

The extent of variable rate borrowing the Council can potentially undertake is influenced by the level of Reserves and Balances. The interest rate on the Council's £10m variable rate loans averaged 0.633%.

The Council has determined that exposure to variable rates is warranted. It also assists with the affordability and budgetary perspective in the short-to-medium term. Any upward movement in interest rates and interest paid on variable rate debt would be offset by a corresponding increase in interest earned on the Council's variable rate investments. The interest rate risk associated with the Council's strategic exposure of £10m is regularly reviewed with our treasury advisor against clear reference points, this being a narrowing in the gap between short and longer term interest rates by 0.5%. If appropriate, the exposure to variable interest rates will be reduced by switching into fixed rate loans.

#### 4.07 Internal Borrowing

Given the significant cuts to local government funding putting pressure on Council finances, the strategy will be to minimise debt interest payments without compromising the longer-term stability of the portfolio.

The differential between the cost of new longer-term debt and the return generated on the Council's temporary investment returns was significant at around 3.21%.

The use of internal resources in lieu of borrowing has therefore continued to be the most cost effective means of funding capital expenditure, with a projection for £30m to be utilised for this purpose by the end of 2015/16. This has lowered overall treasury risk by reducing both external debt and temporary investments.

The Council acknowledges that this position is not sustainable over the medium term and borrowing options and the timing of such borrowing continue to be assessed, with current expectations that the Council will need to borrow for capital purposes from 2016/17 onwards.

#### 4.08 Lender's Option Borrower's Option Loans (LOBOs)

The Authority holds £18.95m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The option to change the terms on £18.95m of the Council's LOBOs was not exercised by the lender. The Authority acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

#### 4.09 Debt Rescheduling

The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

The Corporate Finance Manager, in conjunction with the Council's treasury advisors will continue to review any potential opportunities for restructuring the Council's debt in order to take advantage of potential savings as interest rates change and to enhance the balance of the long term portfolio (amend the maturity profile and/or the balance of volatility).

### 5.0 **INTERIM INVESTMENT AND PERFORMANCE REPORT**

5.01 The Welsh Government's Investment Guidance gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

5.02 The maximum investments the Authority had on deposit at any one time totalled £65.4m. The average investment balance for the period was £55.6m and the average rate of return was 0.48%, generating investment income of £133k. The investment income received for the reporting period exceeded the budgeted figure of £65k by £68k.

5.03 Investments have been made with UK banks and building societies up to periods of 12 months, as well as utilising investment opportunities afforded by money market funds, instant access accounts, Debt Management Office, other Local Authorities and other financial instruments such as Certificates of Deposit (CD's).

5.04 The average debt balance held was £251.3m and the average rate paid was 5.02%, generating interest payable of £3.551m in line with budget forecasts (to date).

	Investments		Borrowing	
	Interest received £'000	Interest rate %	Interest paid £'000	Interest rate %
Actual	133	0.48	3,551	5.02
Budget	65	0.65	3,579	4.53
Difference	+68	-	-28	-

Year end projections are as follows:

	Investments		Borrowing	
	Interest received £'000	Interest rate %	Interest paid £'000	Interest rate %
Actual	200	0.5	12,597	5.02
Budget	130	0.65	12,600	4.53
Difference	+70	-	+3	-

#### 5.06 Credit Risk (security)

Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum counterparty credit rating outlined in the 2014/15 Treasury Management Strategy was A-/A3/A- across rating agencies Fitch, S&P and Moody's.

##### *Counterparty Update (provided by Arlingclose Ltd)*

All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeeten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June downgrading Barclays' long-term rating to A- from A, RBS to BBB+ from A- and Deutsche Bank to BBB+ from A. S&P

has also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.

At the end of July, the council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

#### 5.07 *Liquidity*

In keeping with the WAG's Government's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts.

#### 5.08 *Yield*

The Council sought to optimise returns commensurate with its objectives of security and liquidity. The Council's investment yield is outlined in 5.02.

### **7.00 COMPLIANCE**

7.01 The Council can confirm that it has complied with its Prudential Indicators for the period April to September 2015. These were approved on 17<sup>th</sup> February 2015 as part of the Council's 2015/16 Treasury Management Strategy.

7.02 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the period April – September 2015. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

### **8.00 OTHER ITEMS**

8.01 Other treasury management related activity that took place during April – September 2015 includes:

- The Treasury Management Annual Report 2014/15 was reported to Audit Committee in July. Cabinet and Council reviewed and approved the report in September.
- Quarterly Treasury Management updates were reported to the Audit

Committee.

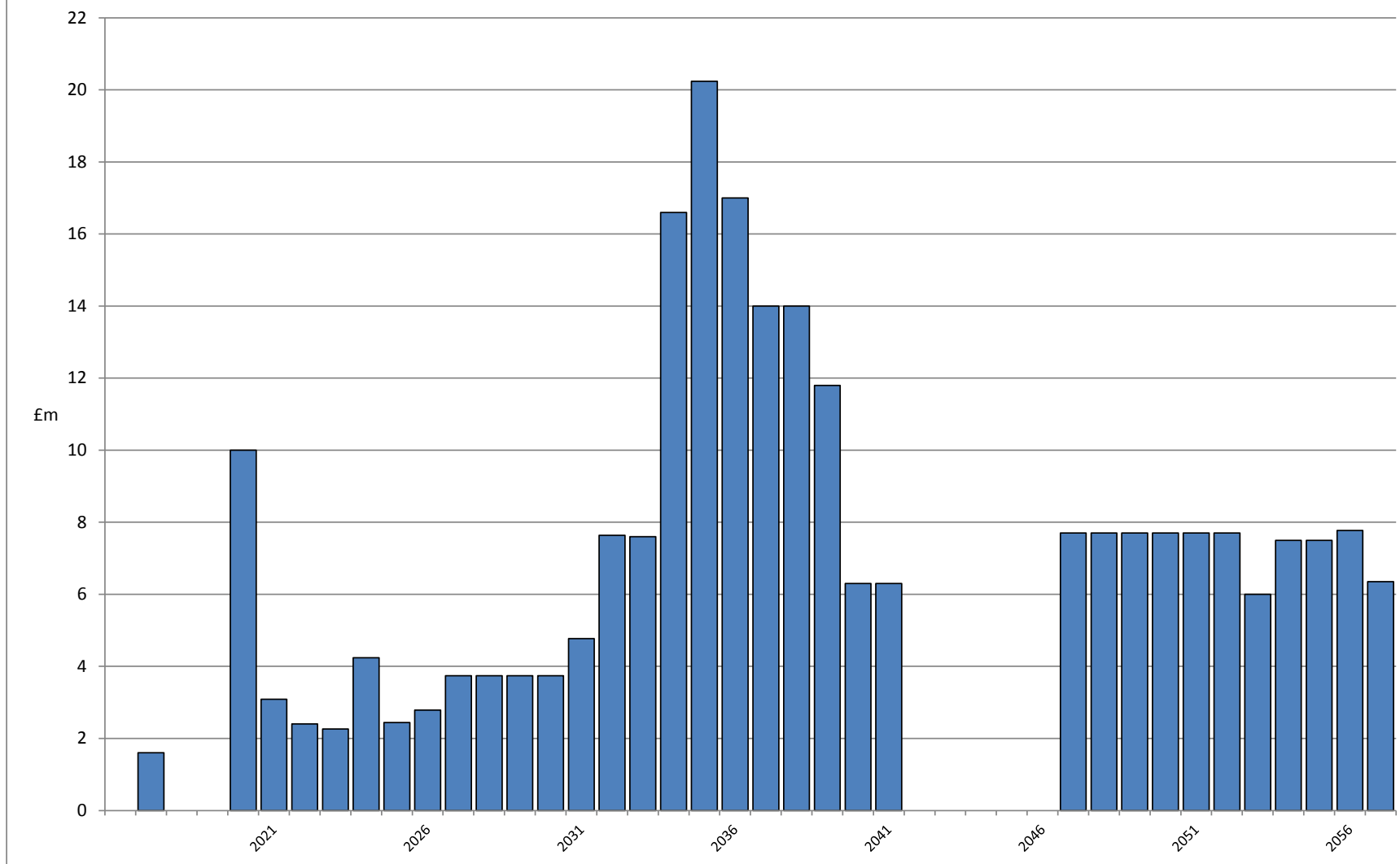
- The Council continues to be a member of the CIPFA Treasury Management Forum and the TM Network Advisory Group.

## **9.00 CONCLUSION**

9.01 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2015/16.

9.02 As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Debt Maturity Profile - June 2015





**FLINTSHIRE COUNTY COUNCIL - INVESTMENT PORTFOLIO**

31st DECEMBER 2015

APPENDIX 6

Counterparty Name	Amount Invested £m	Start Date	Maturity Date	Interest Rate	Investment Interest £	Type of Investment	Period to Maturity
BANK OF SCOTLAND	2.0	01/10/15	30/09/16	1.05%	21,000	UK Bank	3 months +
BANK OF SCOTLAND	2.0	04/11/15	18/01/16	0.43%	1,767	UK Bank	1 month or less
<b>BANK OF SCOTLAND</b>	<b>4.0</b>						
BARCLAYS	1.0	04/11/15	18/01/16	0.47%	962	UK Bank	1 month or less
BARCLAYS	1.6	02/12/15	20/01/16	0.38%	808	UK Bank	1 month or less
<b>BARCLAYS</b>	<b>2.6</b>						
COVENTRY BUILDING SOCIETY	2.0	01/12/15	27/05/16	0.60%	5,852	UK BS	3 months +
<b>COVENTRY BUILDING SOCIETY</b>	<b>2.0</b>						
FEDERATED INVESTORS (UK)	1.8	07/04/15	31/01/16	0.45%	6,619	MMF	1 month or less
<b>FEDERATED INVESTORS (UK)</b>	<b>1.8</b>						
FURNESS BUILDING SOCIETY	1.0	09/03/15	09/03/16	1.00%	10,027	UK BS	1 - 3 months
<b>FURNESS BUILDING SOCIETY</b>	<b>1.0</b>						
GLASGOW CITY COUNCIL	2.0	03/12/15	02/02/16	0.39%	1,304	Local Auth	1 - 3 months
GLASGOW CITY COUNCIL	1.0	04/12/15	26/02/16	0.36%	828	Local Auth	1 - 3 months
<b>GLASGOW CITY COUNCIL</b>	<b>3.0</b>						
GOLDMAN SACHS INTERNATIONAL	2.0	04/11/15	28/01/16	0.46%	2,142	UK Bank	1 month or less
<b>GOLDMAN SACHS INTERNATIONAL</b>	<b>2.0</b>						
INSIGHT LIQUIDITY FUNDS LLP	6.3	01/04/15	31/01/16	0.50%	26,442	MMF	1 month or less
<b>INSIGHT LIQUIDITY FUNDS LLP</b>	<b>6.3</b>						
LANCASHIRE COUNTY COUNCIL	1.4	13/11/15	13/05/16	0.50%	3,490	Local Auth	3 months+
<b>LANCASHIRE COUNTY COUNCIL</b>	<b>1.4</b>						
LANDESBANK HESSEN-THURINGEN	1.0	02/11/15	03/05/16	0.73%	3,660	Overseas	3 months +
<b>LANDESBANK HESSEN-THURINGEN</b>	<b>1.0</b>						
LEEDS BUILDING SOCIETY	2.0	10/11/15	18/02/16	0.40%	2,192	UK BS	1 - 3 months
LEEDS BUILDING SOCIETY	1.0	16/11/15	22/02/16	0.40%	1,074	UK BS	1 - 3 months
<b>LEEDS BUILDING SOCIETY</b>	<b>3.0</b>						
LOUGHBOROUGH BUILDING SOCIETY	1.0	28/09/15	04/01/16	0.54%	1,450	UK BS	1 month or less
<b>LOUGHBOROUGH BUILDING SOCIETY</b>	<b>1.0</b>						
MORGAN STANLEY	0.5	01/04/15	31/01/16	0.45%	1,872	MMF	1 month or less
<b>MORGAN STANLEY</b>	<b>0.5</b>						
NATIONAL COUNTIES BUILDING SOCIETY	1.0	09/10/15	11/04/16	0.73%	3,700	UK BS	3 months +
<b>NATIONAL COUNTIES BUILDING SOCIETY</b>	<b>1.0</b>						
NATIONWIDE BUILDING SOCIETY	1.0	03/12/15	20/01/16	0.39%	513	UK BS	1 month or less
NATIONWIDE BUILDING SOCIETY	1.0	03/12/15	28/01/16	0.40%	614	UK BS	1 month or less
<b>NATIONWIDE BUILDING SOCIETY</b>	<b>2.0</b>						
NORDEA BANK AB	2.0	08/12/15	08/06/16	0.67%	6,718	CD	3 months +
<b>NORDEA BANK AB</b>	<b>2.0</b>						
OVERSEA-CHINESE BANKING CORPORATION	1.0	03/12/15	03/03/16	0.48%	1,197	Overseas	1 - 3 months
<b>OVERSEA-CHINESE BANKING CORPORATION</b>	<b>1.0</b>						
STANDARD CHARTERED	1.0	11/12/15	10/06/16	0.74%	3,690	CD	3 months +
<b>STANDARD CHARTERED</b>	<b>1.0</b>						
STANDARD LIFE INVESTMENT LIQUIDITY FUND	1.4	01/04/15	31/01/16	0.50%	5,835	MMF	1 month or less
<b>STANDARD LIFE INVESTMENT LIQUIDITY FUNI</b>	<b>1.4</b>						
TIPTON & COSELEY BUILDING SOCIETY	1.0	01/10/15	01/04/16	0.70%	3,510	UK BS	3 months +
<b>TIPTON &amp; COSELEY BUILDING SOCIETY</b>	<b>1.0</b>						
<b>TOTAL</b>	<b>39.0</b>			<b>0.54%</b>	<b>94,498</b>		
<b>PREVIOUS REPORTS TOTALS (30th JUNE 2015)</b>	<b>44.3</b>			<b>0.45%</b>			

**FLINTSHIRE COUNTY COUNCIL - INVESTMENTS SUMMARISED BY TYPE & MATURITY**

**31st DECEMBER 2015**

**APPENDIX 6**

Type of Investment	Total Amount Invested £m	% of Total Portfolio	Period to Investment Maturity			
			1 month or less £m	1 - 3 months £m	3 months + £m	12 months + £m
Debt Mangement Office (DMO)	0.0	0%				
UK Bank	8.6	22%	6.6		2	
UK Building Society (UK BS)	11.0	28%	3	4	4	
Overseas	2.0	5%		1	1	
Local Authorities	4.4	11%		3	1.4	
CD's	3.0	8%			3	
T-Bills	0.0	0%				
Money Market Funds (MMF)	10.0	26%	10			
<b>Total (£)</b>	<b>39.0</b>		<b>19.6</b>	<b>8.0</b>	<b>11.4</b>	<b>0.0</b>
<b>Total (%)</b>		<b>100%</b>	<b>50%</b>	<b>21%</b>	<b>29%</b>	<b>0%</b>

31st DECEMBER 2015

Loan Start Date	Principal Loan Outstanding £	Interest Rate %	Annual Interest £	Loan Maturity Date
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PWLB Fixed Rate Maturity Loans				
20/03/86	2,436,316	9.50	231,450	30/11/25
01/04/86	1,392,181	9.13	127,036	30/11/23
01/04/86	1,218,158	9.13	111,157	30/11/21
24/03/88	696,090	9.13	63,518	30/11/27
25/08/88	696,090	9.50	66,129	31/03/28
26/10/88	870,113	9.25	80,485	30/09/23
26/05/89	1,044,135	9.50	99,193	31/03/25
26/05/89	1,044,135	9.50	99,193	31/03/29
28/09/95	561,642	8.25	46,335	30/09/32
28/09/95	181,120	8.63	15,622	30/09/32
28/09/95	348,045	8.25	28,714	30/09/27
28/09/95	696,090	8.25	57,427	30/09/28
28/09/95	1,740,226	8.25	143,569	30/09/29
28/09/95	1,740,226	8.25	143,569	30/09/30
28/09/95	1,740,226	8.25	143,569	30/09/31
28/09/95	522,068	8.25	43,071	30/09/21
28/09/95	696,090	8.25	57,427	30/09/24
28/09/95	1,740,226	8.25	143,569	30/09/26
28/09/95	1,000,282	8.63	86,274	30/09/22
18/04/97	2,000,000	7.75	155,000	18/10/27
18/04/97	2,000,000	7.75	155,000	18/10/28
18/04/97	2,000,000	7.75	155,000	18/10/29
18/04/97	2,000,000	7.75	155,000	18/10/30
22/05/97	1,600,000	7.38	118,000	22/11/17
17/07/97	4,000,000	7.13	285,000	31/03/55
17/07/97	4,000,000	7.13	285,000	31/03/56
17/07/97	4,492,873	7.13	320,117	31/03/57
17/07/97	3,500,000	7.00	245,000	31/03/55
17/07/97	3,500,000	7.00	245,000	31/03/56
17/07/97	3,278,252	7.00	229,478	31/03/57
20/05/98	1,333,332	5.75	76,667	18/04/31
20/05/98	1,050,000	6.00	63,000	18/04/26
09/06/98	2,000,000	5.75	115,000	30/09/32
09/06/98	3,000,000	5.75	172,500	30/09/33
09/06/98	4,000,000	5.75	230,000	30/09/34
17/09/98	3,850,000	5.25	202,125	31/03/58
08/12/98	1,200,000	4.75	57,000	31/03/54
08/12/98	2,500,000	4.75	118,750	31/03/58
08/12/98	4,800,000	4.50	216,000	31/03/54
01/04/99	6,000,000	4.63	277,500	31/03/53
22/04/99	4,000,000	4.50	180,000	31/03/52
10/08/99	1,700,000	4.50	76,500	31/03/53
10/08/99	3,700,000	4.50	166,500	31/03/52
10/08/99	7,700,000	4.50	346,500	31/03/51
10/08/99	7,700,000	4.50	346,500	31/03/50
10/08/99	7,700,000	4.50	346,500	31/03/49
10/08/99	7,700,000	4.50	346,500	31/03/48
05/04/01	2,500,000	4.75	118,750	31/03/25
15/11/01	1,400,000	4.50	63,000	31/03/23
15/11/01	1,350,000	4.50	60,750	31/03/22
02/08/05	1,700,000	4.45	75,650	18/04/31
02/08/05	4,900,000	4.45	218,050	18/04/32
02/08/05	4,600,000	4.45	204,700	18/04/33
02/08/05	1,800,000	4.45	80,100	18/04/34
02/08/05	2,244,611	4.45	99,885	18/04/35
02/04/15	10,800,000	4.11	443,880	02/10/34
02/04/15	9,000,000	4.13	371,700	02/04/35
02/04/15	9,000,000	4.14	372,600	02/10/35
02/04/15	9,000,000	4.16	374,400	02/04/36
02/04/15	8,000,000	4.17	333,600	02/10/36
02/04/15	7,000,000	4.18	292,600	02/04/37
02/04/15	7,000,000	4.19	293,300	02/10/37
02/04/15	7,000,000	4.20	294,000	02/04/38
02/04/15	7,000,000	4.21	294,700	02/10/38
02/04/15	5,448,094	4.22	229,910	02/04/39
<b>Total</b>	<b>222,410,621</b>	<b>5.26</b>	<b>11,694,018</b>	

Market Fixed Rate Loans (LOBOS)				
24/07/07	6,350,000	4.48	284,480	24/01/40
24/07/07	6,300,000	4.53	285,075	24/01/41
24/07/07	6,300,000	4.58	288,540	24/01/42
<b>Total</b>	<b>18,950,000</b>	<b>4.53</b>	<b>858,095</b>	

PWLB Variable Rate Maturity Loans				
05/05/10	10,000,000	0.60	60,000	05/05/20
<b>Total</b>	<b>10,000,000</b>	<b>0.60</b>	<b>60,000</b>	

Totals				
<b>Fixed Rate</b>	<b>241,360,621</b>		<b>12,552,113</b>	
<b>Variable Rate</b>	<b>10,000,000</b>		<b>60,000</b>	
<b>Grand Total</b>	<b>251,360,621</b>	<b>5.02</b>	<b>12,612,113</b>	

\* New loan due to debt restructuring  
 HRAS Buyout Loans

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## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday, 27 January 2016
<b>Report Subject</b>	Corporate Governance Report
<b>Cabinet Member</b>	N/A
<b>Report Author</b>	Internal Audit Manager
<b>Type of Report</b>	Governance

### EXECUTIVE SUMMARY

The Code of Corporate Governance must be reviewed and updated annually to ensure it remains up to date and meets the regulatory requirements.

The role of the Audit Committee includes reviewing the effectiveness of corporate governance and making reports and recommendations to the County Council on the adequacy and effectiveness of these arrangements.

Similarly, the preparation of the Annual Governance Statement (AGS), including the review of the effectiveness of the governance framework, must take place throughout the financial year. The process has already commenced in order for the draft AGS to be ready by July.

### RECOMMENDATIONS

1	For the Audit Committee to agree or amend as appropriate the updated Code of Corporate Governance shown in Appendix 2.
2	For the Audit Committee to endorse the process for the preparation of the Annual Governance Statement shown in Appendix 3.

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE REVIEW OF THE CODE OF CORPORATE GOVERNANCE AND ANNUAL GOVERNANCE STATEMENT</b>
1.01	The Corporate Governance Working Group (CGWG) has two main roles relating to the annual update of the Code of Corporate Governance and the preparation of the Annual Governance Statement (AGS). For both roles it prepares the draft documentation for consideration by the Chief Executive, Monitoring Officer and Section 151 Officer prior to consideration by the Audit Committee. The current membership of this officer working group is shown in Appendix 1.
1.02	The Council's Code of Corporate Governance forms part of the Constitution and applies to all aspects of the Council's business. Members and employees of the Council must in carrying out its business conduct themselves in accordance with the high standards expected by the citizens of Flintshire. The code recognises the emphasis placed upon corporate governance by the Welsh Government and is based upon and reflects the various principles in the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) document entitled 'Delivering Good Governance in Local Government: Framework'.
1.03	The Code states that the Chief Executive and Monitoring Officer are responsible for ensuring that it is kept up to date by way of annual reviews. This updating review was initially carried out by the Corporate Governance Working Group followed by consultation with the Chief Executive, Monitoring Officer and Section 151 Officer. Whilst the majority of the code remains accurate and appropriate some parts of it needed updating. Attached as Appendix 2 is the Code with the proposed updating changes tracked.
1.04	<p>The main updating changes this year are:</p> <ul style="list-style-type: none"> <li>• In 1.2 some information on the developing Alternative Delivery Models</li> <li>• In 1.9 updates on the Medium Term Financial Strategy</li> <li>• In 1.17 updates on the information provided in committee reports</li> <li>• In 4.9 and 4.10 information on the updated risk management approach</li> <li>• In 4.21 to 4.25 information on the complaints and appeals procedures</li> </ul> <p>Other minor changes appear throughout the document.</p>
1.05	The tracked changes are also being taken to the Constitution Committee on the afternoon of 27 <sup>th</sup> January 2016. Any comments and amendments from this meeting will be reported to the Constitution Committee when they consider the changes.

1.06	For each financial year the Council is required to produce an Annual Governance Statement (AGS) as part of its final accounts. The AGS explains how the Council has complied with its Code of Corporate Governance and it also meets the requirements of the Accounts and Audit (Wales) Regulations 2014.
1.07	The process of preparing the AGS for the financial year 2015/16 has already commenced. As in previous years there is a need for Member involvement which includes this paper to request the committee to endorse the process. In addition, as last year, questionnaires have been sent to the Chairs of Overview and Scrutiny Committees for them to complete in addition to the questionnaires completed by senior officers. Given the timing of committee meetings this process has already started. In future it is intended that this paper will be brought to the September meeting.
1.08	In previous years a draft AGS has been brought informally to the committee before the June meeting, so that any amendments could be incorporated before it was formally reviewed. This year the draft AGS will be brought to the July committee. If the committee only requires minor amendments, it will be asked to accept the AGS subject to those amendments. If there are major amendments to be made, the AGS will be re-presented to the committee in September along with the financial statements.
1.09	Attached as Appendix 3 is the process for the preparation of this year's AGS which the committee is being asked to endorse.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None as a direct result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	With the Corporate Governance Working Group, Chief Executive, Monitoring Officer, section 151 Officer and senior officers where appropriate.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>The main risk is in not updating the Code, meaning it does not reflect the systems in place or meet the requirements.</p> <p>Similarly, in order to comply with requirements, the AGS needs to be prepared each year with input from members and officers, and including an annual review of the effectiveness of governance.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 – Membership of the CGWG</p> <p>Appendix 2 – Code of Corporate Governance showing tracked changes</p> <p>Appendix 3 – Process for the preparation of the AGS</p>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>None.</p> <p><b>Contact Officer:</b> David Webster, Internal Audit Manager  <b>Telephone:</b> 01352 702248  <b>E-mail:</b> david.webster@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(1) <b>Corporate Governance:</b> the system by which local authorities direct and control their functions and relate to their communities. It is founded on the basic principles of openness and inclusivity, integrity and accountability together with the overarching concept of leadership. It is an inter-related system that brings together the underlying set of legislative requirements, governance principles and management processes.</p> <p>(2) <b>Alternative Delivery Models:</b> operating models which are different from current or traditional methods of service delivery and which are responding to changed situations to sustain important services.</p> <p>(3) <b>Medium Term Financial Strategy:</b> a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations.</p>



Corporate Governance Working Group Membership

David Webster (Chair)	Internal Audit Manager
Peter Evans	Democracy and Governance Manager
Karen Armstrong	Policy and Performance Manager
Vicki Roberts	Performance Team Leader
Sue Ridings	Accountant
Robert Robins	Member Engagement Manager

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## 1. CODE OF CORPORATE GOVERNANCE

### Introduction

Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities. It is founded on the basic principles of openness and inclusivity, integrity and accountability together with the overarching concept of leadership. It is an inter-related system that brings together the underlying set of legislative requirements, governance principles and management processes.

Flintshire County Council recognises the need for sound corporate governance arrangements and over the years Members and senior Officers have put in place policies, systems and procedures designed to achieve this and the stewardship of the resources at their disposal. In adopting a Code, the Council has drawn together all those elements of corporate governance which were already in place.

This code recognises the emphasis placed upon corporate governance by the Welsh Government and also takes into account relevant legislation and the contents of guidance documents which have been issued as follows: -

- [Delivering Good Governance in Local Government: Framework and Addendum – Chartered Institute of Public Finance and Accountancy \(CIPFA\) / The Society of Local Authority Chief Executives \(SOLACE\)](#)
- [Delivering Good Governance in Local Government – Guidance Notes for Welsh Authorities – CIPFA/SOLACE](#)
- [The Annual Governance Statement – A Rough Guide for Practitioners issued by the CIPFA Finance Advisory Network](#)
- [International Framework: Good Governance in the Public Sector – International Federation of Accountants / CIPFA](#)

The Council's Corporate Governance arrangements are reviewed annually by way of a self-assessment. The self-assessment is undertaken by senior officers of the Council and used to inform the Annual Governance Statement reported each year to the Council's Audit Committee and Council.

The Code forms part of the Constitution and applies to all aspects of the Council's business. Members and staff of the Council must, in carrying out its business, conduct themselves in accordance with the high standards expected by the citizens of Flintshire and to the aspirations set out below.

The Code is based upon and reflects the various requirements that underpin the six core principles contained in the document entitled "Delivering Good Governance in Local Government: Framework". Those six core principles are: -

- Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area.
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles.

- Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- Developing capacity and capability of Members and Officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

Many of the requirements that underpin the six core principles are inter-related and the various sections of the Code need to be read together to obtain a full understanding of the arrangements in place. The Code specially identifies the actions to be taken for each of the six core interlocking principles governing our business.

The Cabinet in consultation with the Constitution Committee ~~are~~ responsible for approving this Code and the Chief Executive and Monitoring Officer are responsible for ensuring that it is kept up to date by way of annual reviews commencing in October each year.

**1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area**

1.1 The County Council is committed through the carrying out of its general and specific duties and responsibilities and its ability to exert wider influence, to: -

- Work for and with its communities.
- Exercise leadership in its communities, where this is appropriate.
- Undertake an “ambassadorial” role to promote the well-being of Flintshire where appropriate.
- Engaging and working in partnership with other organisations and authorities for the benefit of its communities.

1.2 The Council has developed and is working on establishing Alternative Models of Delivery for Council assets and services. The purpose of this is in a difficult financial climate to sustain services and jobs that otherwise would be at risk. The types of alternative delivery will include models run by the community, commercial models, and co-operative or social purpose models. Key requirements for the Council in each instance will be:

- Ensuring proper governance arrangements are established and maintained
- Ensuring business plans are developed and achieved
- Ensuring Council specified services are delivered to a high quality
- Ensuring staff are treated fairly
- Ensuring community benefits are delivered

1.32 The Council will maintain effective arrangements: -

- For explicit accountability to stakeholders for the Authority's performance and its effectiveness in the delivery of services and the sustainable use of resources.
- To demonstrate integrity and openness in the Authority's dealings with partnerships established with other public agencies and the private/voluntary sectors.
- To demonstrate inclusivity by communicating and engaging with all sections of the community to encourage active participation.
- The impact of the county vision as set by the Local Service Board (LSB) is monitored and reviewed by the LSB and the Council's Cabinet as each partner body translates the vision into its working and governance arrangements.
- Ensure that the partnership arrangements below the Single Integrated Plan are supported by a common vision.
- Ensure appropriate governance arrangements are in place when developing alternative delivery models for services.

1.43 An audited and signed Statement of Accounts is published on an annual basis to reflect a true and fair view of the Authority's financial position, as judged by the Council's external auditor (currently Wales Audit Office). Contained within the Statement of Accounts is a statement of responsibilities which includes: -

- Compliance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain.
- The Authority manages its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Suitable accounting policies have been selected and consistently applied.
- Ensuring judgements and estimates which have been made were reasonable and prudent.
- Reasonable steps have been taken to prevent and detect fraud and other irregularities.
- Proper accounting records have been kept and are up to date.
- The Statement of the Authority's Responsibilities for the Statement of Accounts is signed by the Chair of the County Council and the Chief Finance Officer.

1.54 An Annual Governance Statement is presented to Audit Committee and Council for approval every year. Once approved the Statement is signed by the Leader of the Council and the Chief Executive. The statement explains how the Authority has complied with the Code of Corporate Governance, and met the requirements of the Accounts and Audit (Wales) (Amendment) Regulations 2014.

1.65 The Council Planning Framework has been developed to incorporate both the Council's accountability arrangements through i) annual and periodic reporting of performance and risk and challenges in relation to the Council's administration and improvement priorities; ii) 3 year business efficiency plans

and iii) internal structural arrangements to support improvement and change through strategies and plans: Medium Term Financial Strategy, Asset and Capital Strategy, such as the HR People Strategy Plan, ICT Strategy, Procurement Strategy and Customer Services Strategy and Medium Term Financial Strategy.

1.7 The business efficiency plans are one of three elements within the Council's Medium Term Financial Strategy (September 2015) contributing towards reducing the funding gap up to 2017/18.

1.8 Both ~~†~~These elements of the Council Planning Framework are encapsulated within relevant plans and strategies, which include both the 'what and how' of planning to provide our services and the quarterly reporting of pProgress against these plans and through the Improvement Plan monitoring is subject to regular reporting and Chief Officer reports. The contents of the Council Plan (Governance) Framework have been agreed by Cabinet.

1.96 The Medium Term Financial Strategy (MTFS) is a critical part of the Council's overall Governance Framework with the dual purpose of forecasting the financial resources available to the Council for a given period, and to set out plans for how to best deploy these resources to meet its priorities, duties and obligations.

The latest version of the MTFS has been published in two parts – Part 1: Forecasting the Challenge was approved by Cabinet in June and Part 2: Meeting the Challenge was approved in September. The MTFS has been published for the three year period 2015/16 – 2017/18 which will take Flintshire to the end of the first year of the new Council and will be revised and republished twice per year. Firstly, in January/February as part of the annual budget setting process and then in September/October as part of setting the context for the following budget year.

The MTFS includes an ever evolving forecast of the Council's overall financial position and will be kept under constant review.

was formally adopted by the Council in June 2011; the strategy has been translated into Welsh and has been published on the Council's website along with the Council priorities and improvement plan. The MTFS is a critical part of the Council's overall Governance Framework. It sets out the financial resource strategy by which the Council will deliver its vision as strategic objectives over the medium term. Its purpose is to enable the Council to plan ahead by identifying when new investment is required, where activity will increase or decrease and which new policies or targets (external or internal) will be set by the organisation.

Integral to the MTFS is the Medium Term Financial Plan (MTFP) which:–

i) Forecasts for a defined period available resources, financial pressures (which arise from conscious choice, or uncontrollable demand) and opportunities for efficiencies/savings for both revenue services and capital programme.

- ~~— ii) Provides an analysis of the 'gap' between estimated future funding and expenditure.~~
- ~~— iii) Identifies specific actions required to balance budgets and manage resources within the overall framework of the Medium Term Financial Strategy.~~

~~The MTFP is an ever evolving forecast of the Council's financial position. The latest published MTFP is at 30<sup>th</sup> September 2013. The Council plans to develop a fuller and more priority based MTFS in 2014.~~

1.107 The County Council's financial and operational reporting processes are independently examined by: -

- The Wales Audit Office whose annual audit letter is presented to the Audit Committee and their audit certificate is included in the annual Statement of Accounts.
- The Council's independent Internal Audit who report regularly to the Audit Committee including an annual report.
- Other external review agencies such as ESTYN and the Care and Social Services Inspectorate Wales (CSSIW).

1.118 The Council's Overview and Scrutiny Committees have a significant input into the review and development of service delivery issues and policy development. This role includes the examination of performance outturn and budget monitoring which assist in assessing success and failure. These are some of the checks and balances which have been put in place. External regulations add to the process through the publication of reports on service and performance.

1.129 Other ways in which the Council measures and monitors the quality of its services includes: -

- The use of quality assurance models.
- Internal and external audit and inspections.
- Customer Satisfaction Surveys.
- ~~The CIPFA~~ Benchmarking Clubs.
- Reports on performance, risk and achievement of Improvement Objectives (priorities) to Overview & Scrutiny Committees and the Cabinet.

1.130 The Council strives to ensure continuous improvement in the delivery of its services through performance measurement and management, establishing service quality standards, creating clear lines of accountability and monitoring standards and performance, ~~undertaking customer satisfaction surveys~~. The Council has a procedure for dealing with Compliments, Comments and Complaints which enables complaints to be recorded on a central database and monitored corporately and within each portfoliodirectorate.

1.141 A central register of contracts and lists of defaults is being developed to assist in contract monitoring and review. In some areas the Council has put in place arrangements and backup capacity to respond to service or market failure.

1.152 A number of methods are employed to demonstrate value for money: -

- The annual Improvement Plan provides detailed information of the Council's plans and their desired impacts. The annual Performance Report provides a general performance and progress profile as to how the Council is improving the level of efficiency and effectiveness of its services in line with its Improvement Plan.
- An annual budget setting process is in place and all portfolios/directorates have monthly meetings to review their budgets.
- The Terms of Reference of the Council's Overview & Scrutiny Committees enables them to review, scrutinise, question and make recommendations in relation to their areas of activity including policy, finance, performance, risk and governance.
- The business plans are reviewed through a common governance structure of Programme Boards with officer and member involvement, including efficiency trackers and risk logs.~~A series of fundamental business plan reviews are being undertaken as part of the Council's organisational change programme.~~

1.163 The Wales Audit Office review the Council's performance and value for money arrangements through their Improvement Assessment work and report their findings in various letters and their Annual Improvement Report. WAO have recently completed their in-depth Corporate Assessment of the Council. Corporate Assessments are undertaken approximately every four years. Formal feedback is awaited.

1.174 Various impacts such as equality, financial, personnel, environmental and anti-poverty of the Council's policies, plans and strategies are identified on all committee reports in the following sections as appropriate:

Section 1 – Explaining the XXX (report subject)

Section 2 – Resource implications

Section 3 – Consultations Required / Carried Out

Section 4 – Risk Management

—In addition, Equality Impact Assessments are undertaken and published in relation to policy and business decisions as well as setting the budget.

1.185 The Council has adopted the principle that in the conduct of public business and the administration of justice in Wales it will treat the Welsh and English languages on a basis of equality. The Council's new Welsh Language Standards will apply from April 2016 and Scheme sets out how the Council will give effect to the eat principle above when providing services to the public in Wales, and where appropriate, in the conduct of its internal business. The Council ~~has made a public commitment to monitor and review the implementation of its Welsh Language Scheme and to~~ reports bi-annually to the



Council's Cabinet and annually to the Welsh Language Commissioner on its performance.

**2. Members and Officers working together to achieve a common purpose with clearly defined functions and roles**

- 2.1 The Council recognises the need to have effective political and management structures and processes to govern decision-making and the exercise of authority within the organisation. It has therefore established a number of arrangements to secure this.
- 2.2 The Council's Constitution includes the names and a description of the portfolios held by the Leader and other Members of the Cabinet. Their respective roles have been agreed and documented. Role descriptions have also been agreed for all chairs and vice-chairs of Overview and Scrutiny Committees, regulatory committees and Members of Overview and Scrutiny Committees are similarly documented.
- 2.3 Job descriptions are in place for all Senior Officers of the Council and the senior management structure is kept under review to ensure its continued appropriateness.
- 2.4 The Constitution includes a Delegation Scheme which identifies those decisions reserved to the County Council, those local choice issues which are decided by the County Council and those by the Cabinet at the Council's discretion. Local choice issues are reviewed at the Council's Annual Meeting. The Delegation Scheme identifies those general and specific delegated powers given to Chief Officers and Senior Officers and is subject to frequent review.
- 2.5 The Council has appointed a Chief Executive as Head of the Paid Service and with responsibility for all aspects of operational management. The Corporate Finance Manager is responsible for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts and for maintaining an effectual system of internal financial control fulfilling the Council's requirements under Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988. The Chief Officer, Governance has been designated as the statutory Monitoring Officer and is accountable for the statutory requirements of that role under Section 5 and 5(a) of the Local Government and Housing Act 1989. The three Statutory Officers consult each other as required by their statutory roles and meet regularly to consider the work of the Cabinet.
- 2.6 The Council has put in place a number of mechanisms to ensure effective communication between Members and Officers in their respective roles. A Protocol on Member/Officer Relations provides guidance for Members and Officers covering the more common situations that tend to arise. The Protocol encourages the establishment of sound and effective working relations for engendering mutual respect and the observance of the highest standards of behaviour and courtesy towards each other. It gives advice to Officers on the

information that Members are entitled to expect, for the purposes of undertaking their various roles. It includes a section relating to communications and emphasises the need to maintain confidentiality where such an expectation exists. It also recognises the need of Members to be apprised of local issues affecting their Ward including public meetings and consultation exercises.

- 2.7 Briefing sessions are provided to Chairs and Vice-chairs of Committees in advance of committee meetings and wider briefings are organised from time to time with Group Leaders, members of the Cabinet and Ward Members in relation to specific issues.
- 2.8 The levels of Member allowances are set annually by the Independent Remuneration Panel for Wales. Their specific application to the Council is considered at the annual meeting and then detailed in the Schedule of Member Remuneration which forms part of the Constitution.
- 2.9 The terms and conditions and the remuneration of Officers are negotiated nationally. ~~A~~However a job evaluation exercise covering former manual and former administrative, professional, technical and clerical staff has ~~recently~~ been completed and a single status agreement has been ~~implemented~~approved. This project was central to the development of an equality proofed pay structure.
- 2.10 The Chief Executive leads the management of the Council through its Chief Officer Team which through the review of the Council Improvement Plan and supporting plans and strategies, is responsible for communicating the Council's shared values with the community and the Council's partners. It communicates these through: -
- Partnership working
  - Reports to the Council and its committees and the Cabinet
  - The e-magazine 'Your Council'.
  - Meetings with the Flintshire Joint Trades Union Council
  - Meetings of the Joint Consultative Committees
  - ~~Flintshire Focus~~
  - Change Exchange and Team Briefings
  - Staff appraisal process
  - Senior Management Team and other team meetings
  - Workforce Bulletins
  - Social Media e.g. Twitter
- 2.11 Following the Annual Meeting of the Council, Members from all political groups are nominated to undertake roles on various outside bodies. Guidance has been provided to assist Members in carrying out those roles and responsibilities and separate guidance for those nominated as company directors. Whenever a new partnership is created, care is taken to ensure that its legal status is clear, that it has appropriate terms of reference and that representatives are aware of

the extent to which they can bind the Council. The Cabinet has set and agreed a protocol for the governance of partnership working including the full involvement of appropriate Overview & Scrutiny Committees and the Audit Committee.

**3. Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

3.1 The County Council recognises that the openness, integrity and accountability of individuals within a local authority form the cornerstone of effective corporate governance. Also the Council's reputation depends on the standards of behaviour of everyone in it, whether Members, employees or agents contracted to it.

3.2 Members and Senior Officers are therefore expected to maintain shared values and exercise leadership by conducting themselves as role models within the County Council to follow. As a result: -

- The Council has a Code of Conduct governing the behaviour of all Members and co-opted Members of the County Council. This Code requires all Members to declare personal (and prejudicial where appropriate) interests in any matters which come before them for consideration. Where the interest is prejudicial Members must withdraw from the room where the discussion is taking place unless they have received a dispensation from the Standards Committee. Interests must be declared in all meetings including informal meetings with Officers and in correspondence.
- A Local Resolution Procedure has been adopted to resolve the less serious internal complaints of a Member not complying with the Code.
- The Code applies to Members in their dealings with other organisations to which they have been nominated except where that organisation has its own separate code when that code will apply.
- A supplementary Code has been adopted to deal specifically with planning matters.
- The majority of members on the Council's Standards Committee are independent co-opted members, one of whom is the Chairman of the Committee, with the responsibility for monitoring the operation of the Members' Code and providing training and guidelines on it to all Members.
- Officers are subject to a Code of Conduct which includes a wide range of standards of behaviour required of them. These standards include requirements to perform their duties diligently, to respect the dignity and rights of the public, customers and other employees at all times; and to serve the public courteously, efficiently and impartially. There are other requirements relating to the use of Council resources, gifts and hospitalities, outside commitments, conflicts of interest, confidentiality, political neutrality, relationships with Members and general conduct. The Code is issued to all new employees as part of their induction. All staff have been asked to confirm that they have read the Code.

~~3.3 The Leader and Cabinet have set up a number of advisory boards to assist the Cabinet in the development of policy and the development of services.~~

3.34 The County Council has in place a timetable of meetings which seeks to ensure that the roles described above can be exercised effectively. The full County Council is scheduled to meet every 10 weeks, special meetings also take place when they are required, Cabinet meets every four weeks and each of the six Overview and Scrutiny Committees meet regularly several times a year. Details of Overview & Scrutiny work is contained in an annual report reported to Council each year and available on the Council's website.

3.45 The County Council has adopted an Anti-Fraud and Corruption Strategy Policy, Fraud Response Plan and Whistleblowing Policy which are reviewed and updated periodically. ~~Their~~ key elements are: -

- To promote a culture of honesty and opposition to fraud and corruption within the Council.
- ~~To provide arrangements whereby concerns can be raised with senior Officers on a confidential basis.~~
- To ensure arrangements are in place for the prevention of fraud and corruption within the Council, including internal control mechanisms and effective recruitment procedures.
- To set up basic principles to apply where instances of fraud are detected, including the involvement of the Police and the taking of disciplinary measures.
- To remind staff to be alert to possible causes of fraud and corruption.
- To provide arrangements whereby concerns can be raised with senior Officers on a confidential basis.
- Encourage staff, contractors and suppliers and partners to feel confident in raising serious concerns and to question and act upon concerns.
- Ensure that people receive a response to their concerns and that they are aware of how to pursue them if they are not satisfied.
- Reassure those raising concerns that they will be protected from possible reprisals or victimisation if they have a reasonable belief that they have raised any concern in good faith.
- 

3.56 Processes are also in place to ensure the continued operation of arrangements for ensuring that Members and employees are not influenced by prejudice, bias and conflicts of interest. In particular: -

- Members receive advice on a regular basis from the Standards Committee on the application of the Members' Code of Conduct.
- A Code of Planning Practice has been adopted.

- A Protocol has been agreed and published giving guidance to Members on dealings with Developers and Contractors.
- A Members' Register of Interests is maintained.
- There is a formal opportunity for Members at the beginning of all meetings to declare interests.
- Officers are required to register any interests, gifts and hospitality on registers kept by their Chief Officer. Members of the Chief Officer Team should inform the Monitoring Officer of any interests, gifts and hospitality they receive which will be kept on a central register.

3.67 The requirements and terms of the various codes and policies are drawn to the attention of those who need to know about them in a variety of forms: -

- Through formal Member training, in the case of the Members' Code of Conduct.
- Through informal member workshops to raise awareness
- Through publicity of the Officers Code of Conduct, Whistle Blowing Policy and Anti-Fraud and Corruption Policy on the County Council's intranet site.
- Through the County Council's staff induction programme.

3.78 In addition to the Codes of Conduct and Protocols referred to above, the Council seeks to maintain high standards in the conduct of its business and avoid prejudice, bias and conflicts of interest through: -

- The adoption and publication of an Equal Opportunities and Diversity Policy and the provision of training.
- The adoption of a Strategic Equality Plan and annual reporting.
- Through the adoption and monitoring of the Council's Welsh Language Scheme and Policy.

3.8 In addition, the Council's Infonet site has guidance on, for example:-

- Diversity and Equality
- Dignity at Work
- Health and Safety at Work
- Data Protection

3.9. The Local Service Board has developed a Strategic Partnership Governance Framework that considers: -

- Procedures for forming or joining any Strategic Partnership
- Strategic Partnerships Agreements
- Performance Management
- Risk Management
- Resource Management

- Information Sharing and Communication
- Annual Partnership Review / Self-Assessment

The purpose of this is to provide a consistent approach to Strategic Partnership Governance.

This Framework is used by the LSB and related partnerships including: -: -

- Employment, Skills & Jobs Project Board
- Health, Wellbeing and Independence Board
- People are Safe Board
- Youth Justice Executive Management Board

~~The diagram at Appendix 1 shows the links between the LSB and the Partnership Boards in relation to the Community Strategy, Single Integrated Plan and Council plans and strategies.~~

#### **4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

4.1 The Council has also adopted a Constitution which: -

- Clearly defines those functions which are reserved to the full Council for decision, those decisions which will be taken by the Cabinet or its individual members, and those which are delegated to senior Officers. In this respect, the basic principle on which these rules are established is that the full Council sets the strategic direction through the adoption of policies and the budget, the Cabinet takes major decisions within the overall policy and budget framework and helps to develop new policies and Officers take the day to day decisions within the policy and budget framework.
- Established through the six Overview and Scrutiny Committees a robust overview and scrutiny role. These bodies have between them powers to review and scrutinise decisions relating to any of the Council's activities, including considering policy issues referred to them by the Council or the Cabinet.
- Sets out clearly the role of the Leader and Cabinet and in particular makes it clear that they are responsible for providing effective strategic leadership to the Council and for ensuring that the Council successfully discharges its overall responsibilities for the activities of the organisation as a whole.
- Ensures through Financial Procedure Rules and the Scheme of Delegated Powers that there is effective control over the day to day conduct of the Council's business by requiring Member approval for decisions outside defined parameters.
- Makes clear the role of all Councillors both in their formal decision making/ policy development role and as local members and ensures through the Schedule of Member Remuneration that they are properly remunerated for this work.



~~4.2 The Constitution sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is divided into 30 sections that set out how each part of the council works. 21 articles which set out the basic rules governing the Council's business. More detailed procedures and codes of practice are provided in rules and protocols at the end of the Constitution.~~

4.32 The Constitution sets out the responsibilities and procedures for decision making. ~~Decisions which can be taken by the Cabinet, Overview and Scrutiny and other committees and full Council are clarified in Part 3 of the Constitution. Each section of the Constitution describes the relevant delegated powers for that part of the council.~~ The fundamental principles to be applied in all decision making are as follows: -

- Proportionality (i.e. the action must be proportionate to the desired outcome).
- Due consultation and the taking of professional advice from Officers.
- Respect for human rights.
- A presumption in favour of openness.
- Clarity of aims and desired outcomes.
- Consideration of alternative options.
- Recording reasons for the decision, including details of any alternative options considered and rejected.
- In addition the Council's policies and protocols set out the processes that must be followed in decision making e.g. in relation to planning applications processes are detailed in the Flintshire Planning Code of Best Practice.

~~4.3 The Constitution sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is divided into 21 articles which set out the basic rules governing the Council's business. More detailed procedures and codes of practice are provided in rules and protocols at the end of the Constitution.~~

4.4 The decision making process is clearly explained on the Council's web site.

4.5 The Constitution contains comprehensive Contract and Financial Procedure Rules governing the process to be adopted in conducting the Council's business; these are further supported by more detailed local codes, protocols and notes of guidance.

4.6 The Constitution sets out clear protocols and codes of conduct to ensure that the implications of supporting community political leadership for the whole Council are acknowledged and resolved, including: -

- Members' Code of Conduct

- ~~Standards Procedure~~
- ~~Whistleblowing Procedure~~
- ~~Flintshire Planning Code of Best Practice~~
- ~~Protocols for Members placing items on an agenda of an Overview and Scrutiny Committee~~~~Overview and Scrutiny Committees including:-~~
- ~~Attendance of Members and Officers at Overview and Scrutiny Committee meetings~~
- ~~Dealing with minority reports within Overview and Scrutiny~~
- ~~Cabinet Members attending meetings of Overview and Scrutiny Committees~~
  - ~~Members placing items on an agenda of an Overview and Scrutiny Committee~~
- ~~Local Member/Officer Protocol on Member / Officer Relations~~
- ~~Protocol for Members in their dealings with Contractors / Developers and other third parties~~
- ~~Planning Code of Practice~~

~~4.7 In addition, the Council's Infonet site has guidance on, for example:-~~

- ~~Equalities~~
- ~~Harassment~~
- ~~Speaking up about wrongdoing (Whistle Blowing)~~
- ~~Health and Safety at Work~~
- ~~IT Code of Practice~~
- ~~Data Protection~~

4.87 The Council has an Audit Committee consisting of 7 politically balanced Members and a lay member. The Chair and Vice Chair are chosen by the Committee itself from amongst the opposition group(s), non-aligned Councillors, or lay member. It meets on a regular basis and is advised by the Council's Internal Audit Manager, and is normally attended by representatives of the Council's external auditors. All Members receive training and it is a requirement that only trained substitutes are allowed.

The Committee's terms of reference include those prescribed by the Local Government (Wales) Measure 2011 and were agreed by the Council. They give the committee the following functions: -

- Review the effectiveness of the Authority's systems of corporate governance, internal control and risk management systems, and to make reports and recommendations to the County Council on the adequacy and effectiveness of these arrangements;
- Oversee the reporting of the statutory financial statements process to ensure the balance, transparency and integrity of published financial information, and to review the financial statements prepared by the authority and recommend them to the County Council;



- Monitor the performance and effectiveness of the internal and external audit functions within the wider regulatory context;
- Review and scrutinise the County Council's financial affairs, and to make reports and recommendations on them. The role of the committee is to assure the budgetary control systems of the Council rather than the scrutiny of the use and value for money of expenditure which is the role of the respective Overview and Scrutiny Committees.

4.89 The Audit Committee is further supported in the discharge of its functions by:-

- Having appropriate arrangements in place for delivery of an adequate and effective Internal Audit function and ensuring adequate reporting arrangements to safeguard its independence.
- An up to date risk based Internal Audit Plan.
- Systematic risk assessments in all areas of the Council's activities; both at a strategic level supporting the Council's improvement priorities and at an operational Chief Officer level.
- Clear Terms of Reference.
- External Auditors who annually consider the Council's approach to legality, its response to major legislation and any matter of legality relevant to the Audit of financial transactions and the outcome is considered by the Audit Committee.
- Appropriate training for Members of the Audit Committee.

4.9 A refreshed approach to risk management was approved by the Audit Committee in June 2015. It incorporates:

- Enhanced descriptions of risk including an explanation of the impact if the 'risk' were to be realised and become the 'issue' to be dealt with.
- A more sophisticated risk matrix, moving from a 3 x 3 matrix to a 6 x 4 matrix for likelihood and impact; allowing more options to show how the risk is increasing or decreasing dependent on the success of mitigating actions and influence of external conditions.
- Clearer guidance for escalating and reviewing/reporting risk; the more the significant the risk, the more frequently it is reviewed.
- An improved format to capture both new and emerging risks and also allow for a risk to be 'closed' once it has been mitigated or realised as an issue being dealt with.
- The reporting of 'risk' more prominently within Council reports

4.10 The Council has identified and evaluated its strategic risks in relation to the priorities within the Improvement Plan. These form the basis of the Council's strategic risk register. They are reported on quarterly to Cabinet and the

relevant Overview and Scrutiny Committees as part of the Improvement Plan Monitoring Reports. Additionally, Audit Committee receives a report twice yearly which includes a strategic risk summary/overview.

~~4.11~~ Additionally, Operational risks are captured and monitored through the supporting plans and strategies, to the Improvement Plan within their operational areas and through project/programme boards as appropriate. Partnership and project risks are captured by and reported to the appropriate boards.

4.1~~2~~<sup>4</sup> The Council has developed a resilient approach to Business Continuity including: -

- The development of a Corporate Business Continuity Plan which provides the overall framework within which the Business Continuity Plans operate and identifies the actions to be taken to aid recovery during a major business interruption e.g. loss of IT or accommodation.
- ~~The identification of Mission Critical Services and development of Plans~~ Service Continuity Plans are being updated for those services which must be maintained or recovered as a priority should a business interruption occur e.g. severe weather.

Both the above are periodically tested through training and scenarios and lessons applied through these and in year events.

4.12 ~~The Council has a Whistle Blowing Policy which is reviewed and updated periodically. All members of staff have access to the policy which aims to:-~~

- ~~Encourage staff, contractors and suppliers and partners to feel confident in raising serious concerns and to question and act upon concerns.~~
- ~~Provide avenues for people to raise those concerns and receive feedback on any action taken.~~
- ~~Ensure that people receive a response to their concerns and that they are aware of how to pursue them if they are not satisfied.~~
- ~~Reassure those raising concerns that they will be protected from possible reprisals or victimisation if they have a reasonable belief that they have raised any concern in good faith.~~

4.13 The Council actively recognises the limits of lawful activity placed upon them whilst also striving to utilise powers to the full benefit of their communities through: -

- Legal advice in the preparation of Council, Committee and Cabinet reports.

- The availability of legal advice at meetings of the Council, the Cabinet and various Committees.
  - The pro-active work of the Council's Legal Service and its close working relationship with service managers.
  - Professional development and training (including multi-agency training for Children's Services staff in particular).
  - The Council's policies and protocols set out the processes.
- 4.14 The Overview & Scrutiny function has developed as a critical friend, providing constructive challenge in order to contribute to continuous service improvement. This role is discharged both through consultation by the Cabinet and Chief Officers and also through the 'calling in' of Cabinet decisions by the 6 functional Overview & Scrutiny Committees. Each of those Committees engages in performance monitoring and management through the consideration of appropriate items such as performance indicator outturns, risk identification and mitigation. The work programmes of Overview & Scrutiny are updated and published on a regular basis and there is a dedicated team of Officers to support the function.
- 4.15 Other Committees will take decisions based upon detailed reports with any late information being referred to in the minutes. Overview and Scrutiny Committees when undertaking work requested by Council or the Cabinet or when undertaking their own investigations, will agree reports containing the evidence which was considered to be material.
- 4.16 The Cabinet and County Council reports contain all the information, evidence and comments needed to take decisions. The decisions made by Officers under delegated powers are documented on files or where they are of a significant nature, incorporated in Delegated Action Forms which are reported to the Cabinet for information purposes.
- 4.17 The Monitoring Officer and Deputy Monitoring Officer are available to give advice to Members and staff on conflicts of interest that might arise from time to time. Guidance is also available on the Council's Infonet.
- 4.18 A set of customer service standards are in place which are supported by a complaints procedure, which in turn is supported by a central database system which aims to: -
- Make it easy for anyone to make a compliment, comment, or complaint ~~or a compliment.~~
  - Solve problems as close to where they occur as possible, and pass back compliments to the right people.
  - Prevent problems happening again and also encourage good practice.

4.19 Monitoring of the arrangements set out above is carried out in a number of ways, particularly: -

- Through the Corporate Complaints Officer in the case of compliments, comments and complaints.
- Through the Standards Committee, in the case of the Members' Code of Conduct.
- Through the Monitoring Officer, in respect of the Whistle Blowing Policy.
- By Internal Audit, in the case of the Anti-Fraud and Corruption Strategy.

4.20 Member Services provide a support service to Members in relation to their ward issues. Cabinet Members are supported through the Executive Office.

4.21 ~~The Council has developed a separate complaints handling system for social services matters with three stages. The final stage involves an appeal to an Independent Panel. In line with statutory guidance the Council has developed a separate complaints handling system for social services matters. The prescribed process has three stages. Stage one provides for local consideration and resolution, stage two a formal independent investigation/review with a response from the Chief Officer for Social Services. The third and final stage involves appeal to the Local Government Ombudsman.~~

4.22 There are statutory appeal processes involving independent panels for school exclusions and admissions.

4.23 Planning appeals can be made to the Welsh Ministers against all planning decisions.

4.24 Requests can be made to the Council to review certain housing decisions, including decisions relating to homelessness applications and decisions to seek possession from introductory tenants and demoted tenants. Such reviews are carried out by officers who were not involved in the original decision. Statutory appeals can be made in the court against homelessness decisions where the original decisions are upheld by the reviewing officer.

4.25 All decisions of the Council that do not carry a right to a sStatutory review or appeal can be subject to Judicial Review or can be the subject of a complaint to the Public Services Ombudsman for Wales.

## **5. Developing capacity and capability of Members and Officers to be effective**

5.1 ~~Managers are responsible for ensuring all new staff have an induction. There is a generic induction checklist which needs to be completed in addition to a service specific induction. A qGeneric one day induction sessions isare also provided for all new employees in groups the purpose of which is to cover. Those induction sessions include modules includingcomprising equalities and diversity awareness, customer care and governance.~~

5.2 After County Council elections a Member induction programme is devised and delivered. The Council ensures that both Members and Officers have the skills required to undertake their roles and that those skills are developed on a continuing basis to improve performance through: -

- Staff appraisal as part of a performance management system which also identifies training and development needs and how these will be met.
- Induction training for officers.
- The development of leadership and management behavioural competencies.
- Development and training programmes, including those provided by professional organisations for both Members and Officers.
- Management Development Programme for Officers.
- Member induction training.
- A mentoring system for Members.
- An annual Member Development Programme.
- The Council's Member Development Strategy.
- Training on the Members' Code of Conduct.
- Specific training for Members on planning, licensing, audit and risk management.

5.3 The Council benefits from its membership of the Welsh Local Government Association which provides support and assistance over the whole range of Council functions, partnership working, policy development and liaison with the Welsh Government. -CIPFA/SOLACE, Lawyers in Local Government and other professional associations also assist and support statutory and other service officers in performing their roles.

5.4 ~~The~~ A People Strategy and underpinning action plan, which aims to ensure that employees deliver services that meet existing and future demands was refreshed at the end of~~has been developed to run until~~ 2014 and will run until 2017. The HR Business Partner, aligned to each portfolio, works in partnership with portfolio Management Teams to develop and implement activities under the People Strategy at local / service level in relation to the four key themes namely Effective Leadership, High Performance, Enabled Workforce and Improved Skills and Resources. ~~There is a nominated officer in each service area who is responsible for monitoring specific elements of the plan, for example, the completion of individual employee appraisals.~~

~~5.5 The Council wishes to encourage individuals from all sections of the community to engage with and contribute to and participate in the work of the Authority and seeks to achieve this aim through:-~~

- ~~The Single Integrated Plan and its extensive and consultation with partners.~~

- ~~• The Improvement Plan produced annually which is consulted on through the Members as representatives of local residents.~~
- ~~• Supporting Communities First programmes to enable people to participate effectively in their own communities.~~
- ~~• The development and implementation of a consultation and engagement framework and guidelines/policy document.~~
- ~~• The adoption of a set of core consultation and engagement principles based on nationally identified best practice.~~

5.56 The Council ensures that career structures are in place for all staff and encourages participation and development through: -

- development of a Corporate Performance Management framework
- development of a People Strategy
- periodic restructuring of the Council's senior management
- continuous professional development

## 6. **Engaging with local people and other stakeholders to ensure robust public accountabilities**

6.1 The Council continues to enhance arrangements to demonstrate the levels of accountability in the provision of services through: -

- The Single Integrated Plan (Wellbeing Plan)
- The Council's Improvement Plan
- Business Plans
- Medium Term Financial Strategy
- Supporting Plans and Strategies
- Clear statements of roles and accountabilities in job descriptions of staff
- Clear statements of the roles of Members in their various offices
- Unambiguous provisions in partnership and service level agreements
- Terms of reference of committees

6.2 The vast majority of reports are considered in public and in the rare cases where this is not the case, the Committee has resolved to exclude the press and public after the Monitoring Officer or Deputy Monitoring Officer have decided there is a proper legal basis for doing so.

6.3 The Council's Overview and Scrutiny Committees produce an annual report on their work which is considered by the Council.

~~6.45.5 The Council wishes to encourage individuals from all sections of the community to engage with, and contribute to and participate in the work of the Authority and seeks to achieve this aim through: -~~

- The Single Integrated Plan and its extensive ~~and~~ consultation with partners.
- The Improvement Plan produced annually which is consulted on through the Members as representatives of local residents.
- Supporting Communities First programmes to enable people to participate effectively in their own communities.
- The development and implementation of a consultation and engagement framework and guidelines/policy document.
- The adoption of a set of core consultation and engagement principles based on nationally identified best practice.

6.54 The Council has established clear channels of communication with all sections of the community and other stakeholders and put in place proper monitoring arrangements to ensure they operate effectively.

- The Council has many ways of communicating with its citizens and stakeholders, including: -
  - ~~Publications and leaflets~~
  - The e-magazine 'Your Council'
  - Website
  - Social Media
  - Publications and leaflets
  - Events
  - Established links and regular meetings with local interest groups/forums
  - Invitations to members of the public to submit issues they consider should be considered by Overview and Scrutiny Committees
  - Consultation on the budget process with local stakeholders (residents and businesses) to help shape its budget proposals and encourage community involvement.
- Recognising the value of media as a method of communicating information to the public and using news releases, statements and media briefings to do this.

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**Process for Preparation of AGS 2015/16**

<b>Date</b>	<b>Steps</b>
October/November 2015	Review of questionnaires
December 2015	<ul style="list-style-type: none"> <li>• Send out questionnaire to all Chief Officers for self assessment and obtaining information/evidence.</li> <li>• Send out questionnaire to Overview &amp; Scrutiny Chairs</li> </ul>
27 January 2016	Report to Audit Committee for endorsement of process
February/March 2016	<ul style="list-style-type: none"> <li>• Where appropriate internal challenge by the Working Group of the questionnaires returned by Chief Officers.</li> <li>• Gathering of further information/evidence by the Working Group</li> </ul>
March/April 2016	Working Group prepare draft AGS in the light of information/evidence provided and results of internal challenge.
May 2016	<p>Draft AGS considered by the Chief Executive, Monitoring Officer and Section 151 Officer, and COT.</p> <p>Working Group amend draft AGS as a result of consideration by Chief Executive, Monitoring Officer and Section 151 Officer.</p>
June 2016	Member workshop to discuss draft AGS
13 July 2016	<p>Report to Audit Committee with draft AGS</p> <ul style="list-style-type: none"> <li>• Accepted subject to amendments; or</li> <li>• Amendments needed</li> </ul>
August 2016	<p>Make amendments as necessary.</p> <p>Provide information and assist Wales Audit Office in its consideration of AGS</p>
September 2016	<p>If necessary, to Audit Committee for acceptance after amendments.</p> <p>AGS reported to County Council</p>

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## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday 27 <sup>th</sup> January 2016
<b>Report Subject</b>	Statement of Accounts 2014/15: Wales Audit Office (WAO) Audit of Financial Statements Report Addendum – Recommendations, FCC Action Plan, WAO Annual Audit Letter
<b>Cabinet Member</b>	Cabinet Member for Finance
<b>Report Author</b>	Corporate Finance Manager
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

As part of the final accounts process, every year the WAO present a report 'Audit of Financial Statements' to the Audit Committee upon the conclusion of the audit of the Council's Statements of Accounts. The initial report was presented to the Audit Committee in September 2015. An addendum report setting out their recommendations has now been issued. In response an 'action plan' of how issues raised in the report will be addressed has been produced.

The WAO have also issued the 'Annual Audit Letter' summarising the key messages arising from the Auditor General for Wales' statutory responsibilities under the Public Audit (Wales) Act 2004, and reporting responsibilities under the Code of Audit Practice.

### RECOMMENDATIONS

1	<p>Members note the;</p> <ul style="list-style-type: none"> <li>• WAO Audit of Financial Statements Report Addendum – Recommendations,</li> <li>• Council's Action Plan,</li> <li>• WAO Annual Audit Letter</li> </ul>
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## **REPORT DETAILS**

<b>1.00</b>	<b>EXPLAINING THE APPENDICIES</b>
1.01	Attached at Appendix 1 to this report is the WAO addendum to their Audit of Financial Statements Report presented to the Audit Committee and Council on 24 <sup>th</sup> September 2015. The report sets out their recommendations arising from their financial audit work along with the Council's response.
1.02	Appendix 2 to this report is the Council's Statement of Accounts Action Plan which summarises: <ul style="list-style-type: none"><li>• The issues raised by the WAO in relation to the Statement of Accounts</li><li>• The Council's response to those issues</li><li>• Actions planned to respond to those issues raised</li><li>• Current assessment of risk in terms of implementation by way of Red, Amber, Green flags (RAG status)</li></ul>
1.03	The Action Plan includes issues raised in relation to the audit of the Council and the Clwyd Pension Fund.
1.04	All actions are progressing, with all actions having a material impact on the statement of accounts rated as green and are on track for implementation or have been completed.
1.05	Appendix 3 to this report is the WAO Annual Audit Letter; summarising the key messages arising from the Auditor General for Wales' statutory responsibilities under the Public Audit (Wales) Act 2004 and the reporting responsibilities under the Code of Audit Practice. This was issued by the required date of 30 <sup>th</sup> November and is published here for Members information.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None other than officer time and associated costs to implement the recommendations within the appendices.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None required.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	The main risk is not implementing the recommendations sufficiently which leads to an adverse opinion being expressed by the WAO in relation to future years accounts.

	Officers have worked with the WAO to develop the action plan and ensure it adequately addresses the issues. Progress in implementing the action plan will be closely monitored by a new Accounts Governance Group consisting of Senior Officers.
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<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - WAO Audit of Financial Statements Report Addendum – Recommendations.  Appendix 2 – FCC Action Plan  Appendix 3 – WAO Annual Audit Letter

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<b>Contact Officer:</b> Liz Thomas – Technical Finance Manager <b>Telephone:</b> 01352 702289 <b>E-mail:</b> <a href="mailto:liz.thomas@flintshire.gov.uk">liz.thomas@flintshire.gov.uk</a>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
	<p><b>Agency Arrangement:</b> The Council acts on behalf of another entity as an intermediary eg Welsh Government. Any financial transactions associated with the arrangement should not form part of the Council’s Final Accounts.</p> <p><b>Bank Reconciliation:</b> The process of confirming that all financial transactions on the bank statements through the Council’s bank accounts match those in the cash book.</p> <p><b>Cash Book:</b> The Council’s accounting record of all financial transactions through the bank accounts.</p> <p><b>Cash Receipting:</b> The Council’s system for accounting for income it receives in a variety of methods.</p> <p><b>Central or Support Services Charges or Recharges:</b> Costs associated with Services that don’t provide front line services, known as services that are ‘Central’, ‘Corporate’ or ‘Support’, that for Statement of Accounts purposes need to be allocated across the front line services. Examples include; Corporate Finance, Legal, Human Resources etc.</p> <p><b>Closedown Plan or Timetable:</b> Detailed list of actions and deadlines needing to be completed to achieve the statutory deadline for producing the Council’s pre-audit / draft Statement of Accounts (30<sup>th</sup> June)</p> <p><b>Comprehensive Income and Expenditure Statement (CI&amp;ES):</b> One of the principal statements within the Council’s Statement of Accounts showing the cost in year of providing services in accordance with generally accepted accounting practices (rather than the amount funded from local taxation)</p>

**Financial Audit:** The annual external audit of the Council's Statement of Accounts.

**Financial Year:** the period of 12 months commencing on 1 April

**Internal Transaction:** When one service department charges another for a service they have provided, for example a charge by the Theatre to a School for pantomime tickets.

**Material:** A concept used to inform judgements regarding the accuracy of the Council's Statement of Accounts. The basis could be quantitative with an assigned value or qualitative and affected by issues that are legal, regulatory, or politically sensitive.

**Non-Current Assets:** Also known as fixed assets, assets that provide a benefit to the Council for more than a single financial year. Examples include items of property, plant, vehicles and equipment.

**Statement of Accounts / Final Accounts / Financial Accounts or Statements:** The Council's annual finance report providing details of the Council's financial performance and position at the end of the financial year. The format is prescribed to enable external comparison with other public and private entities.

**Service Reporting Code of Practice (SeRCOP):** A Code of Practice that sets out how the Council must produce its Comprehensive Income and Expenditure Account.

**Wales Audit Office:** works to support the Auditor General as the public sector watchdog for Wales. They aim to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.



# Audit of Financial Statements Report addendum - recommendations

## **Flintshire County Council**

**Audit year:** 2014-15

**Issued:** November 2015

**Document reference:** 107A2016

# Status of report

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This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).



# Contents

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## Summary report

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Introduction	4
--------------	---

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Recommendations arising from our 2014-15 financial audit work	4
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# Summary report

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1. This report is an addendum to my Audit of the Financial Statements Report presented to Flintshire County Council on 24 September 2015.

## Introduction

2. It is the Council's responsibility to:
  - put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
  - maintain proper accounting records;
  - prepare a Statement of Accounts in accordance with relevant requirements; and
  - establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.
3. The Public Audit (Wales) Act 2004 requires me to:
  - provide an audit opinion on the accounting statements;
  - review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
  - issue a certificate confirming that I have completed the audit of the accounts.
4. Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 30 September 2015, I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's and the Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts.
5. The key matters arising from the accounts audit were reported to members of the Council in my Audit of Financial Statements report on 24 September 2015.

## Recommendations arising from our 2014-15 financial audit work

6. In my Audit of Financial Statements report I set out that I would present a separate paper with details of the recommendations arising from our financial audit work. The recommendations are set out below with management's response to them:

### Matter arising 1 – Preparation of the Comprehensive Income and Expenditure Statement (CIES)

#### Findings

The Council had changed its basis of compilation for the gross income and expenditure presented within the CIES in order to improve the quality of the statement. However, a number of transactions were incorrectly treated which led to both gross income and gross expenditure being materially overstated.

#### Priority

High

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**Matter arising 1 – Preparation of the Comprehensive Income and Expenditure Statement (CIES)**

<b>Recommendation</b>	Undertake further work to ensure that transactions are correctly mapped as either income or expenditure and ensure that all central charges and agency arrangements are correctly netted out.
<b>Benefits of implementing the recommendation</b>	To correctly state the Comprehensive Income and Expenditure statement in accordance with the Local Government Code of Practice.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	2014/15 code map corrected and reviewed by Officers of Flintshire County Council and Wales Audit Office. 2015/16 code map set up earlier in the year and tested before year-end to ensure there are no issues. Guidance and training to be delivered to all Finance staff by Officers of Flintshire County Council and Wales Audit Office jointly.
<b>Implementation date</b>	March 2016

**Matter arising 2 – Allocation of support services and other overheads**

<b>Findings</b>	The Service Reporting Code of Practice (SeRCOP) sets out guidance on the presentation of the service expenditure analysis used in the CIES and the definition of total cost which includes an appropriate share of all support services and other overheads. These should be charged, allocated or apportioned in accordance with seven principles set out in the SeRCOP. As part of our work, we identified some concerns that the principles were not being fully adhered to.
<b>Priority</b>	High
<b>Recommendation</b>	To review the basis for the allocation of support services and other overheads to ensure that they comply with the seven principles set out in the SeRCOP.
<b>Benefits of implementing the recommendation</b>	To ensure that the service expenditure analysis reflects total cost as defined by the SeRCOP
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	Methods of apportioning support and overheads costs to service headings defined in SeRCOP to be reviewed.
<b>Implementation date</b>	February 2016

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### Matter arising 3 – internal recharging

<b>Findings</b>	Within the Council there are a range of activities undertaken that result in internal charging from one department to another. As this is not actual income or expenditure incurred by the Council, it is necessary to net these transactions out of the CIES so as to not overstate the actual income and expenditure. In order to facilitate this, the Council uses a range of 'equal and opposite' accounting codes within its coding structure in the financial ledger. As part of our work, we identified that the coding of these transactions was not consistent across the Council resulting in the value of transactions of the income recharge codes being significantly higher than that on the corresponding expenditure recharge codes, when they should have been of the same value.
<b>Priority</b>	High
<b>Recommendation</b>	Ensure that all internal transactions are coded correctly within income and expenditure so as to allow them to be correctly excluded from the CIES.
<b>Benefits of implementing the recommendation</b>	To ensure that gross income and gross expenditure are correctly stated.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	A review will be undertaken to determine the different kinds of internal charging across the Council and agree standard processing for the different kinds of charging. Guidance and training will be provided to all Finance staff. A system of in-year monitoring will be introduced to avoid any year-end issues.
<b>Implementation date</b>	March 2016

### Matter arising 4 – Bank Reconciliation

<b>Findings</b>	The bank reconciliation had reconciled the bank statements to the movement of payments and receipts during the year as opposed to the cash book figure. As a result there was an error in the Note relating to cash and cash equivalents. In addition there was an unreconciled item of £17,000 relating to cash receipting.
<b>Priority</b>	High
<b>Recommendation</b>	Ensure that the bank reconciliation is correctly prepared and that all transactions are fully reconciled.
<b>Benefits of implementing the recommendation</b>	To ensure the integrity of the accounting records.

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#### Matter arising 4 – Bank Reconciliation

Accepted in full by management	Accepted
Management response	The year-end bank reconciliation in future will reconcile to the cash book. Work is underway to address the unreconciled cash receipting balance, and to set up a Council wide procedure for any such transactions arising in the future.
Implementation date	April 2016

#### Matter arising 5 – Weaknesses in Payroll controls

Findings	In performing controls testing on payroll, we identified a number of control weaknesses which were also identified and reflected in the Council's Internal Audit report on Payroll.
Priority	High
Recommendation	Ensure that the detailed internal audit report recommendations are implemented.
Benefits of implementing the recommendation	To strengthen the internal control environment in relation to payroll transactions.
Accepted in full by management	Accepted
Management response	Many of the recommendations contained within the Internal Audit report issued in August 2015 have been fully implemented. Internal Audit have conducted a further interim audit of the November 2015 payroll in order to review and report upon the changes that have been made to internal controls and to monitor those actions that are still in progress.
Implementation date	March 2016

#### Matter arising 6 – Employee contract documentation

Findings	Evidence to support employee salary levels, eg employment contracts, was not always readily available.
Priority	High
Recommendation	Ensure that employee salaries and any other payments are supported by relevant employment contracts.
Benefits of implementing the recommendation	To ensure that individuals are paid the correct salary.

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### Matter arising 6 – Employee contract documentation

<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	The Wales Audit Office and Internal Audit reports did not identify any instances where individuals were not paid the correct salary. (As per Matter arising 6) - many of the recommendations contained within the Internal Audit report issued in August 2015 have been fully implemented. Internal Audit have conducted a further interim audit of the November 2015 payroll in order to review and report upon the changes that have been made to internal controls and to monitor those actions that are still in progress.
<b>Implementation date</b>	March 2016

### Matter arising 7 – Quality review

<b>Findings</b>	It was evident from our work that the financial accounts had not been subject to a quality review and contained figures that needed explanation or amendment as they were clearly inconsistent and incorrect.
<b>Priority</b>	High
<b>Recommendation</b>	Ensure that the financial statements, and underlying transactions, are subject to a quality review and that all significant variances in transactions and balances are understood and supported by evidence and explanation.
<b>Benefits of implementing the recommendation</b>	To ensure that the accounts are correctly stated and are of good quality.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	Additional processes will be built into the closedown programme for reviewing significant variances in transactions and balances in 2015/16.
<b>Implementation date</b>	June 2016

### Matter arising 8 – Understanding the accounts and audit process

<b>Findings</b>	In order to both prepare and audit the financial statements, information and supporting evidence is needed from a range of sources, including from some departments outside of the Finance department. During the audit, requests for evidence and other information from some departments outside of Finance were not always responded to in a timely manner. This was mainly as a result of a lack of understanding of the accounts and audit process and requirements.
<b>Priority</b>	High

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### Matter arising 8 – Understanding the accounts and audit process

<b>Recommendation</b>	Ensure that all relevant departments are clear about their respective roles and responsibilities in the accounts and audit process.
<b>Benefits of implementing the recommendation</b>	Strengthened arrangements and improved efficiency in the accounts preparation and completion of the audit.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	<p>Officers from the Council and the Wales Audit Office will jointly present in-year seminars to Chief/Senior Officers of the Council to raise awareness of the Accounts preparation and audit processes, and their role/responsibility in relation to the Accounts.</p> <p>A Governance Group of Senior Officers will be set up to oversee the Accounts preparation and audit processes at a strategic level. The group will monitor the action plan resulting from the 2014/15 audit, and in future escalate any material/significant issues or resource requirements at an earlier stage in the process.</p>
<b>Implementation date</b>	June 2016

### Matter arising 9 – Faster Closing

<b>Findings</b>	<p>Proposals to bring forward the timetable for the preparation and publication of the financial statements sets challenging deadlines over the coming years. It is essential that the Council considers how it can streamline its processes to allow it to meet these deadlines.</p> <p>This will require all relevant parties working together to ensure that the preparation and subsequent audit can be delivered efficiently.</p>
<b>Priority</b>	Medium
<b>Recommendation</b>	Review the accounts processes, in conjunction with the auditors, to look for opportunities to streamline the processes.
<b>Benefits of implementing the recommendation</b>	To ensure that revised publication dates can be met.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	The Council has been preparing for faster closedown over the past few years following the similar announcement for English local authorities some years ago, and in ensuring the accounts production process is as efficient as it can be. This preparation will continue.
<b>Implementation date</b>	Ongoing (consultation on changes has only recently closed with proposed changes not implemented until financial years 2018/19 and 2020/21).

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**STATEMENT OF ACCOUNTS ACTION PLAN**

	<b>Issue Raised in WAO Report</b>	<b>Flintshire's Response</b>	<b>Actions (including RAG status)</b>
	<b>Ongoing from 2013/14 audit</b>		
1	Non-current assets are not sufficiently detailed within the Council's asset register to allow the identification of individual assets across all asset categories.	<p>Accepted.</p> <p>Asset registers are a cumulative accounting record of all asset related transactions undertaken over many years. FCC asset register has been maintained in the same way since its inception in 1996. Undertaking work to restate the way information is presented is therefore resource intensive and if the information needed is not available due to the length of time passed may not be possible.</p> <p>When FCC was set up in 1996, the Council inherited a share in percentage terms of Clwyd County Council's balance sheet. This means that it won't be possible to link these transactions to an individual asset.</p>	<p><b>1.1</b> Data from 2014/15 onwards will be entered onto the register in a manner that identifies individual assets sufficiently. <b>(Completed)</b></p> <p><b>1.2</b> During 2014/15 work was undertaken to restate prior years information relating to assets in the classes below so that information on individual assets can be identified:</p> <ul style="list-style-type: none"> <li>• Vehicles, Plant, Furniture and Equipment</li> <li>• Community Assets</li> </ul> <p><b>(Completed)</b></p> <p><b>1.3</b> During 2015/16 financial year assets classed as Council Dwellings and Infrastructure will be reviewed. <b>(Amber)</b></p>

**STATEMENT OF ACCOUNTS ACTION PLAN**

	<b>Issue Raised in WAO Report</b>	<b>Flintshire's Response</b>	<b>Actions (including RAG status)</b>
<b>2</b>	The Council needs to undertake an exercise, with reference to the individual agreements, to determine the appropriate accounting treatment of deposits (highways, environmental and s106 deposits etc)	Accepted.  The volume of deposits and the length of time that some deposits date back to, mean that the task of reviewing all agreements was too resource intensive to complete during the audit period.	Progress in 2014/15 was delayed due to capacity issues.  <b>2.1</b> All available legal documents are being scanned so that an electronic copies are readily available. <b>(Green)</b>  <b>2.2</b> A full review of each deposit and associated legal agreement will be undertaken during 2015/16 to determine the appropriate accounting treatment going forward. <b>(Amber)</b>
	<b>2014/15 audit</b>		
<b>3</b>	Undertake further work to ensure that transactions are correctly mapped as either income or expenditure and ensure that all central charges and agency arrangements are correctly netted out.	Accepted.	<b>3.1</b> 2014/15 code map corrected and reviewed by Officers of FCC and WAO. <b>(Green)</b>  <b>3.2</b> 2015/16 code map set up earlier in the year and tested before year end to ensure there are no issues. <b>(Green)</b>

**STATEMENT OF ACCOUNTS ACTION PLAN**

	<b>Issue Raised in WAO Report</b>	<b>Flintshire's Response</b>	<b>Actions (including RAG status)</b>
			<b>3.3</b> Guidance and training to be delivered to all Finance staff by Officers of FCC and WAO jointly. <b>(Green)</b>
<b>4</b>	To review the basis for the allocation of support services and other overheads to ensure that they comply with the seven principles set out in the Service Reporting Code of Practice (SeRCOP).	Accepted	<b>4.1</b> Methods of apportioning support and overheads costs to service headings defined in SeRCOP to be reviewed. <b>(Green)</b>
<b>5</b>	Ensure that all internal transactions are coded correctly within income and expenditure so as to allow them to be correctly excluded from the Comprehensive Income and Expenditure Statement.	Accepted	<p><b>5.1</b> A review will be undertaken to determine the different kinds of internal charging across the Council and agree standard processing for the different kinds of charging. <b>(Completed)</b></p> <p><b>5.2</b> Guidance and training will be provided to all Finance staff. <b>(Green)</b></p> <p><b>5.3</b> A system of in year monitoring will be introduced to avoid any year end issues. <b>(Completed)</b></p>

**STATEMENT OF ACCOUNTS ACTION PLAN**

	<b>Issue Raised in WAO Report</b>	<b>Flintshire's Response</b>	<b>Actions (including RAG status)</b>
<b>6</b>	Ensure that the bank reconciliation is correctly prepared and that all transactions are fully reconciled.	Accepted	<p><b>6.1</b> The year-end bank reconciliation in future will reconcile to the cash book. <b>(Green)</b></p> <p><b>6.2</b> A Council wide procedure for accounting for any un-reconciled cash receipting balance arising in the future will be developed. <b>(Green)</b></p>
<b>7</b>	<p>Ensure that the detailed internal audit report recommendations are implemented.</p> <p>Ensure that employee salaries and any other payments are supported by relevant employment contracts.</p>	Accepted	<p><b>7.1</b> Many of the recommendations contained within the Internal Audit report issued in August 2015 have been fully implemented. Internal Audit have conducted a further interim audit of the November 2015 payroll in order to review and report upon the changes that have been made to internal controls and to monitor those actions that are still in progress. <b>(Green)</b></p>
<b>8</b>	Ensure that the financial statements, and underlying transactions are subject to a quality review and that all significant variances in transactions and balances are understood and supported by evidence and explanation.	Accepted	<p><b>8.1</b> Additional processes will be built into the closedown programme for reviewing significant variances in transactions and balances in 2015/16. <b>(Green)</b></p>

**STATEMENT OF ACCOUNTS ACTION PLAN**

	<b>Issue Raised in WAO Report</b>	<b>Flintshire's Response</b>	<b>Actions (including RAG status)</b>
<b>9</b>	Ensure that all relevant departments are clear about their respective roles and responsibilities in the accounts and audit process.	Accepted	<p><b>9.1</b> Officers from the Council and the WAO will jointly present in year seminars to Chief / Senior Officers of the Council to raise awareness of the Accounts preparation and audit processes, and their role / responsibility in relation to the Accounts. <b>(Green)</b></p> <p><b>9.2</b> A Governance Group of Senior Officers will be set up to oversee the accounts preparation and audit processes at a strategic level. The group will monitor this action plan, and in future escalate any material / significant issues or resource requirements at an earlier stage in the process. <b>(Green)</b></p>

**STATEMENT OF ACCOUNTS ACTION PLAN**

	<b>Issue Raised in WAO Report</b>	<b>Flintshire's Response</b>	<b>Actions (including RAG status)</b>
	<b>Clwyd Pension Fund</b>		
<b>10</b>	Records in financial ledger and pensions administration system need to be reconciled regularly with differences corrected in the relevant system to ensure transactions are accurate and complete.	Accepted	<b>10.1</b> Work is underway to ensure that details are corrected in the Altair (pensions administration) system when various variances are identified. <b>(Green)</b>
<b>11</b>	It would be beneficial to have a separate and specific closedown plan for the Clwyd Pension Fund.	Accepted	<b>11.1</b> A separate and detailed closedown plan for the Clwyd Pension Fund is being developed and will be in place for the 2015/16 year end. <b>(Green)</b>



Councillor Aaron Shotton and Colin Everett  
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Reference	693A2015
Date	2 December 2015
Pages	1 of 4

Dear Aaron and Colin

**Annual Audit Letter –Flintshire County Council 2014-15**

This letter summarises the key messages arising from the Auditor General for Wales' statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

**The Council complied with its responsibilities relating to financial reporting and use of resources**

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 30 September 2015, I issued an unqualified audit opinion on the accounting

statements confirming that they present a true and fair view of the Council's and the Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to Flintshire County Council in my Audit of Financial Statements report on 24 September 2015, and are summarised below:

- The Council changed its basis of for preparing the Consolidated Income and Expenditure Statement (CIES) which resulted in large unexplained variances and a significant number of errors that required correction.
- We identified some weaknesses in the strength of the Council's internal controls over payroll processing. These were consistent with the findings of Internal Audit. Whilst we were satisfied that these control weaknesses did not impact on our opinion on the financial statements, they are serious in nature as they increase the risk of error and fraud in the processing of pay.
- The level of scrutiny and review of the draft financial statements and recognition of the collective responsibility, for the preparation of the accounts and responding to the audit process, across the wider Council needs to be strengthened. This is essential if the Council is to meet the challenges resulting from the Welsh Government proposals to bring forward the timetable for the preparing and publishing the accounts of local government bodies in Wales.

As set out in my report, following the completion of the audit, it was agreed that we would hold a post project learning session with officers to identify any improvements that can be made. That meeting has already taken place and a number of actions have been agreed to improve processes and working methods relating to both the preparation and audit of the 2015-16 financial statements.

It is also worth noting, the Council lead on the preparation of the accounts of the North Wales Residual Waste Joint Committee and the Taith Regional Transport Consortia. On 30 September 2015, in respect of the North Wales Residual Waste Joint Committee, I confirmed that the information contained in its annual return was in accordance with proper practices, and in respect of the Taith Regional consortia I issued an unqualified opinion on its accounts confirming that they present a true and fair view of the Committee's financial position and transactions. The key matters arising from both these accounts audits were reported to the relevant committees. I do not need to bring anything further to your attention in this letter.



**I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources**

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts, as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure 2009. My Annual Improvement Report will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made.

Historically, I have taken the opportunity to comment on the Council's financial planning in my annual audit letter. However, we have recently undertaken a Financial Resilience Assessment on the Council and I will be issuing my report in December.

**I issued a certificate confirming that the audit of the accounts has been completed on 30 September 2015**

I also issued a completion certificate for the joint committees on the same date.

**My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2015-16 accounts or key financial systems**

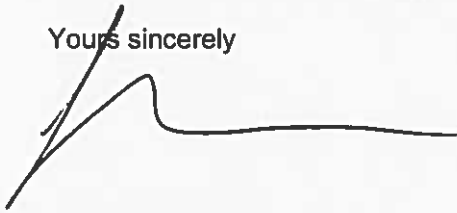
In June 2015, the Audit Committee considered my Certification of Grants and Returns 2013-14 report which confirmed that the Council had generally adequate arrangements in place for the preparation of submission of its grant claims. However, 53 per cent of the claims were qualified and a further 26 per cent were amended and the Council needed to further embed and improve the arrangements which had been adopted in previous years. The Audit Committee, rightly, expressed its disappointment and concerns at the report findings.

Prior to the commencement of the preparation of the 2014-15 claims, we worked with relevant officers to assist in identifying where previously agreed processes were not being consistently followed and to clarify audit expectations. We also delivered further grants training to officers involved in the preparation of grant returns. It is hoped that these actions, along with other actions taken by the Finance department, will result in an improvement in the quality of the grant claims submitted for audit.

My programme of audit work on the 2014-15 grant claims is currently underway and I will issue a more detailed report on my grant certification work in Spring 2016, once this year's programme of certification work is complete.

In my 2015 Audit Plan I set out that I expected the financial audit fee for 2014-15 to be £216,336. As a result of the issues identified and the resultant additional work in order to allow me to form my opinion on the accounts, the fee will be slightly higher than anticipated. We will discuss this with the Corporate Finance Manager in due course and report the position to the Audit Committee once all our work is complete. All other fees are in line with those set out in the plan.

Yours sincerely

A handwritten signature in black ink, consisting of a series of connected strokes that form a stylized, somewhat abstract shape.

**John Herniman**  
**For and on behalf of the Auditor General for Wales**



## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday, 27 January 2016
<b>Report Subject</b>	External Regulators and Inspections Reports
<b>Cabinet Member</b>	Not Applicable
<b>Report Author</b>	Internal Audit Manager
<b>Type of Report</b>	Assurance

### EXECUTIVE SUMMARY

The Council receives reports from various external regulators and inspectors in the normal course of events. It is part of the Terms of Reference of the Audit Committee to ensure that effective processes are in place for setting and monitoring actions arising from these reports.

This summary report provides assurance to the Audit Committee that the reports have been discussed and considered in the appropriate member committees and action taken in response to the recommendations received.

### RECOMMENDATIONS

1	To note how reports by external auditors, other regulators and inspectors have been dealt with during 2015.
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### REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE EXTERNAL REGULATORS AND INSPECTIONS REPORT</b>
1.01	The Local Government (Wales) Measure contains various provisions relating to the work of audit committees. Statutory guidance made under Section 85 of the Measure was issued in June 2012. That guidance

	advised that audit committees should receive and consider reports from external auditors, other regulators and inspectors.
1.02	At an informal meeting between members of the Audit Committee and Chairs and Vice-chairs of Overview and Scrutiny in 2013 it was agreed that officers should put in place a process to monitor all reports issued by external auditors, regulators and inspectors. This to include details of which committees such reports have been reported to.
1.03	Following that meeting officers put in place arrangements for such records to be maintained by the Policy and Performance Team within the Chief Executive's portfolio. Attached as Appendix 1 is a table detailing the reports issued during 2015 by various external regulators and inspectors, a short summary of the findings and the member bodies to which those reports have been reported and when.
1.04	Where a report by an external auditor, other regulator or inspector contains recommendations, it is important that those recommendations receive proper consideration by both officers and members and are responded to. The responses will, on occasion, require an action plan to implement changes and appropriate procedures need to be in place to oversee the implementation of such action plans.
1.05	It is part of the Terms of Reference of the Audit Committee to ensure that effective processes are in place for setting and monitoring such action plans. Whilst the Audit Committee has the responsibility for ensuring all audit reports issued by the external auditor are implemented, for other reports the Committee's Terms of Reference make clear it is sufficient that it is satisfied that there are effective processes in place. These processes may, for example, include the work of Overview and Scrutiny Committees.
1.06	Appendix 1 shows all the reports received from external regulators during 2015, the summary findings and response from the Council and where they were reported to.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	With officers in the Policy and Performance Team.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	The work of the external regulators, and the actions in response to their reports provide assurance to the Council that adequate and effective controls are in place to mitigate risks.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – External Audit Report Summary.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None  <b>Contact Officer:</b> David Webster, Internal Audit Manager. <b>Telephone:</b> 01352 702248 <b>E-mail:</b> <a href="mailto:david.webster@flintshire.gov.uk">david.webster@flintshire.gov.uk</a>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>Wales Audit Office:</b> works to support the Auditor General as the public sector watchdog for Wales. They aim to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.</p> <p><b>Improvement Plan:</b> the document which sets out the annual priorities of the Council. It is a requirement of the Local Government (Wales) Measure 2009 to set Improvement Objectives and publish an Improvement Plan.</p> <p><b>Care and Social Services Inspectorate for Wales (CSSIW):</b> The powers and functions of CSSIW are enabled through legislation. CSSIW has the powers to review Local Authority social services at a local and national level, to inform the public whether services are up to standard, to promote improvement of services and to help safeguard the interests of vulnerable people who use services and their carers. They provide professional advice to Welsh Ministers and policy makers.</p> <p><b>Estyn:</b> Estyn is the education and training inspectorate for Wales. Estyn is responsible for inspecting primary and secondary schools and nursery schools maintained by, or receiving funding from, local authorities.</p>

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Regulatory Body	Year	Name of Report	Date Issued	Findings	Council Response	Timescale	Responsible Officer	Where reported	Date
Wales Audit Office	2014	Review of Corporate Safeguarding Arrangements in Welsh Councils	Feb-15	<p>The review specifically considered the effectiveness of safeguarding arrangements within two selected services:</p> <p>a) Education Services b) Cultural and Leisure Services</p> <p>Fieldwork was undertaken at all 22 Welsh councils; surveys of local authority staff and elected members were undertaken; in addition to review of relevant research and guidance from the Care and Social Services Inspectorate Wales and Estyn.</p> <p>- Welsh Government guidance, which sets out the safeguarding arrangements it expects councils to put in place, is not sufficiently clear and compliance with guidance by councils varies.</p> <p>- Council-wide arrangements for safe recruitment and training do not always provide assurance that corporate safeguarding responsibilities are being discharged effectively.</p> <p>- Safeguarding arrangements are not consistently monitored and evaluated by councils as part of their corporate scrutiny, internal audit and risk management arrangements.</p> <p>The report contains 8 key recommendations.</p> <p><a href="http://www.audit.wales/system/files/publications/365A2015_safeguarding_english_final.pdf">http://www.audit.wales/system/files/publications/365A2015_safeguarding_english_final.pdf</a></p>	Not required - FCC not specifically mentioned in the report.	Not Applicable	Chief Officer - Social Services	Not Applicable	Not Applicable
Wales Audit Office	2014/15	Annual Improvement Report including Corporate Assessment 2014	Mar-15	<p><b>Extracts from summary</b></p> <p>The Auditor General has concluded that the Council's track record suggests that it is likely to respond positively to the internal and significant external challenges it faces and make arrangements to secure continuous improvement for 2015-16. This judgement reflects the conclusions of his corporate assessment, that the Council has made significant progress in a number of difficult areas during the last year; although it needs to strengthen aspects of its arrangements, the Council is reasonably well placed to continue to deliver its priorities in the face of further financial challenges.</p> <p>The audit team found that, despite some strengths and areas of progress, aspects of the Council's arrangements are not fully supporting decisionmaking and the delivery of the Council's agreed priorities.</p> <p>We also found that the Council has taken significant strides forward in its use of resources and now needs to co-ordinate the elements more systematically in the face of future financial challenges.</p> <p><a href="http://www.audit.wales/publication/flintshire-county-council-annual-improvement-report-including-corporate-assessment-2014">http://www.audit.wales/publication/flintshire-county-council-annual-improvement-report-including-corporate-assessment-2014</a></p>	As is practice the Council published a response on the issues raised within the report.	On-going	Chief Executive	Cabinet  Audit Committee  Corporate Resources O&S Committee	Mar-15  Mar-15  Apr-15
Wales Audit Office	2014/15	Review of Whistleblowing Arrangements	Mar-15	<p>The Council has a satisfactory whistleblowing policy which it applies appropriately. The Council's whistleblowing policy demonstrates a clear commitment to handling whistleblowing concerns appropriately but with opportunities to make the policy more user-friendly in a few areas. The Council maintains its records securely and follows its policies and procedures appropriately when investigating whistleblowing concerns.</p>	No response required.	Not Applicable	Head of Internal Audit	Audit Committee	Jun-15

Regulatory Body	Year	Name of Report	Date Issued	Findings	Council Response	Timescale	Responsible Officer	Where reported	Date
Wales Audit Office	2014/15	The financial resilience of Councils in Wales	Apr-15	<p>This work was undertaken by staff of the Wales Audit Office and Grant Thornton on behalf of the Auditor General. The focus of the review is the 2014-15 financial planning period and the delivery of 2013-14 financial plans. We have also analysed the financial performance track-record of councils in 2011-12 and 2012-13. There were three main elements to our work.</p> <p>10 Based on the findings of this audit, the Auditor General has concluded that Councils in Wales are under significant financial stress and have been active in meeting the challenge. However, the next few years will see increasing financial pressures and councils will need to improve strategic financial planning in order to effect transformation and protect their financial resilience.</p> <p><a href="http://www.audit.wales/publication/financial-resilience-councils-wales">http://www.audit.wales/publication/financial-resilience-councils-wales</a></p>	Not required - FCC not specifically mentioned in the report.	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Wales Audit Office	2013/14	Certification of Grants and Returns 2013/14	Apr-15	While the Council had generally adequate arrangements in place for the production and submission of its 2013-14 grant claims, there is scope for improvement and further embedding of previously adopted arrangements. We are continuing to work with the Council to make these improvements for 2014-15.	The Corporate Finance Management Team has considered the report in detail and has developed an action plan to address the findings and recommendations in the report. This plan will be closely monitored and reviewed in July and October 2015 to ensure that appropriate actions have been taken to address the recommendations.	Oct-15	Corporate Finance Manager	Audit Committee	Jun-15
Wales Audit Office	2014/15	Improvement Plan 2014/15 - Certificate of Compliance	Jul-15	<p><b>Certificate 1</b></p> <p>The Council has discharged its duties under section 15(6) to (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.</p> <p>There are no new statutory recommendations or proposals for improvement.</p>	In our response we set out how we will make improvements to ensure full compliance with the spirit and detail of the national guidance.	On-going	Chief Executive	Not Applicable	Not Applicable



Regulatory Body	Year	Name of Report	Date Issued	Findings	Council Response	Timescale	Responsible Officer	Where reported	Date
Wales Audit Office	2014/15	Audit of Financial Statements	Sep-15	<p>Unqualified</p> <p><b>Opinion of the Auditor General for Wales on the accounting statements of Flintshire County Council</b></p> <p>In my opinion the accounting statements and related notes:</p> <ul style="list-style-type: none"> <li>- give a true and fair view of the financial position of Flintshire County Council as at 31 March 2015 and of its income and expenditure for the year then ended; and</li> <li>- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.</li> </ul> <p><b>Opinion of the Auditor General for Wales on the accounting statements of Clwyd pension fund</b></p> <p>In my opinion, the pension fund accounts and related notes:</p> <ul style="list-style-type: none"> <li>- give a true and fair view of the financial transactions of the Clwyd Pension Fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at that date; and</li> <li>- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.</li> </ul>	No response required.	Not Applicable	Chief Executive	County Council  Audit Committee	Sept-14  Sept-14
Wales Audit Office	2014/15	National Study: Independence of Older People	Oct-15	<p>During 2015, WAO examined whether councils are working effectively to support the independence of older people.</p> <p>Based on the findings of this audit, the Auditor General has concluded that whilst the Welsh public sector recognises the challenges of an ageing population, some key barriers are inhibiting the shift in focus that is needed to reduce demand for health and social care services and support older people to live independently.</p> <p><a href="http://www.audit.wales/publications/Independence-of-Older-People">http://www.audit.wales/publications/Independence-of-Older-People</a></p>	Not Applicable	Not Applicable	Chief Officer - Social Services	Not Applicable	Not Applicable
Wales Audit Office	2014/15	Audit of Flintshire County Council's assessment of 2014/15 performance (Annual Performance Report)	Nov-15	<p><b>Certificate 2</b></p> <p>The Council has discharged its duties under sections 15(2), (3), (8) and (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.</p>	A formal response was not made as no issues were raised.	Not Applicable	Chief Executive	Not Applicable	Not Applicable

Regulatory Body	Year	Name of Report	Date Issued	Findings	Council Response	Timescale	Responsible Officer	Where reported	Date
Wales Audit Office	2014/15	National Study: Delivering with less - Leisure Services	Dec-15	<p>During 2015, staff of the Wales Audit Office, on behalf of the Auditor General, examined council leisure services under our series of 'delivering with less' thematic reviews.</p> <p>We found that although public sector ownership and management of leisure provision is starting to change with the transfer of some services and assets to other models of operation, such as private sector trusts, strategic decisions on whether to transfer or continue with in-house provision of leisure services have not always been based on robust information or a consideration of all of the options open to councils.</p> <p><a href="http://www.audit.wales/publication/delivering-less-leisure-services">http://www.audit.wales/publication/delivering-less-leisure-services</a></p>	TBC	TBC	Principal Leisure Services Officer	TBC	TBC
CSSIW	2014/15	Flintshire Fostering Services	Apr-15	<p>The fostering service was subject to a regular base line inspection which assessed whether the registration of the service is justified and the conditions of registration are appropriate. This addressed quality of life of children, with other themes being staffing, leadership and management and carers.</p> <p>The inspection team identified a number of positives including:</p> <ul style="list-style-type: none"> <li>- The service is described as very child focused, with all staff aware of each child's needs and circumstances.</li> <li>- The quality of the service has maintained with some improvements made despite some staffing pressures.</li> <li>- Evidence of good recording of information with decisions about placements appropriately recorded.</li> </ul> <p>The inspection identified one area of non-compliance in which independent members of the Fostering Panel were employees of Flintshire County Council. (This has now been addressed with the appointment of two new members not employed by the Local Authority).</p> <p>Further proactive areas were identified to improve standards:</p> <ul style="list-style-type: none"> <li>- The effective recruitment of sufficient carers</li> <li>- Informal network support for Foster Carers</li> <li>- Documentation to include feedback from Looked After Children Education (LACE)</li> <li>- improvements in the role and function of the fostering panel coordinator have been made</li> <li>- questionnaire formats do reflect distinct feedback of children &amp; kinship carers</li> </ul>	The Council's response has been incorporated as part of the Fostering Inspection Action Plan.	Various as per Action Plan	Chief Officer - Social Services	Social & Health O&S Committee	Jul-15

Regulatory Body	Year	Name of Report	Date Issued	Findings	Council Response	Timescale	Responsible Officer	Where reported	Date
CSSIW	2015	Inspection of Children's Social Services	Sep-15	<p>A detailed inspection of services was undertaken during May and June 2015, concerning 4 main themes:  Theme 1 Access Arrangements  Theme 2 Assessment  Theme 3 Safeguarding and Care Management  Theme 4 Leadership and Governance</p> <p>The report reflects that there are many strengths in the service notably good social work practice, strong political and corporate support for children's services, and, timely, well managed and child focussed child protection conferences and reviews. The service was also found to have a committed, suitably trained and qualified workforce with a strong commitment from senior managers to achieve improvements in the support for children and families.</p> <p>The report reflects areas for improvement in the duty and assessment model for children, our process for initial screening and the quality and timeliness of assessment and care plans. Furthermore the council's strategic vision for the service needs to be translated into a strategy that is well understood by staff, users and partners.</p> <p>The report acknowledges that children's services has undergone a period of transition in the last year and supports the approach of the new senior team in taking forward positive service change.</p>	The Council's response has been incorporated as part of the action plan to address the 12 recommendations for improvement identified.	Various - as per action plan	Chief Officer - Social Services	Social & Health O&S Committee	Nov-15
CSSIW	2014/15	Performance Evaluation Report 2014/15	Oct-15	<p>The CSSIW evaluation confirms that the council is realistic about the risks posed by increasing demand, meeting greater complexity of need and growing budgetary pressures.  The report identifies that the council:  1. has developed a number of new service models as part of a strategic transformation programme that is increasingly focused upon the goal of creating an integrated preventative system for care  2. is developing improved access arrangements  3. is investing in smarter commissioning  4. is forging stronger and more integrated working arrangements with an outcome focus.</p> <p>Areas for further development in 2015/16 relate to:  <b>Adult safeguarding:</b> Thresholds need to provide a more consistent response and adults at risk need to have a stronger voice and be at the centre of working practice.  <b>Early intervention and prevention:</b> Arrangements with Children's services need to ensure a timely and consistently appropriate response. The reasons for a significant increase in re-referrals need to be understood and addressed.  <b>Outcomes for looked after children:</b> Whilst recent outcomes have been good, there are indications that corporate parenting is not as effective as it could be. A significant number of placements are not in the immediate area, school placements are not as stable as they were and health assessments are not routinely undertaken.</p>	An action plan is in place to address areas for improvement raised by CSSIW.	Various - as in action plan	Chief Officer - Social Services	Social & Health O&S Committee	Jan-16

Regulatory Body	Year	Name of Report	Date Issued	Findings	Council Response	Timescale	Responsible Officer	Where reported	Date
CSSIW	2015	2 Residential Homes reviewed	Jan 2015 Nov 2015	Croes Atti Llys Gwenffrwd  No issues of non compliance reported in either report.	Not Applicable - Residential homes respond directly to CSSIW. The Flintshire Contact Monitoring Team are advised of results and will follow up with the homes where negative reports (escalating concerns) are received to ensure recommendations are actioned.	Various - as per Action Plans	Registered Manager	Not Applicable	Not Applicable
CSSIW	2015	Quayplay	Nov-15	A positive report with a number of areas being highlighted as what the service does well, including: - The service improves year on year as procedures, equipment and facilities are evaluated and the necessary changes made. - The service provided is inclusive, working in partnership with 'Action for Children'. - The Flintshire 'Buddy Scheme' which has been established for over ten years enables children to access their local play provision during the summer via the summer play scheme programme. - Quayplay works closely with families to identify any barriers and how best to work around them. - The scheme operates its own bus service to and from the sports centre, collecting children and returning them to strategic points where their parents wait.  No issues of non compliance reported.	TBC	Various - as per Action Plans	TBC	TBC	TBC
ESTYN	2014/15	Schools Inspections	2014/15 School Year	Estyn have undertaken inspections of 13 schools during the 2014/15 school year. One school had been placed in Special Measures in Jan 2014 but was removed in July 2015.  Progress was reported to Lifelong Learning O&S / Education and Youth O&S as follows: July 2014: Chief Officer Year End Report October 2014: Learning from School Standards Monitoring Group Report November 2014: Local Authority Self Evaluation Report	Schools respond to Estyn, however where a school is in a 'Serious' category of concern, i.e. 'special measures' or 'in need of significant improvement', the LA is held to account by Estyn and produces an LA Action Plan to support the school.	Various - as per Action Plans	School's Govern Body & the LA where schools are in a 'Serious' category of concern	Lifelong Learning O&S / Education & Youth O&S	See dates and reports under Findings

Regulatory Body	Year	Name of Report	Date Issued	Findings	Council Response	Timescale	Responsible Officer	Where reported	Date
ESTYN / WAO	2014	Achieving improvement in support to schools through regional education consortia - an early view	Jun-15	<p>On behalf of the Auditor General, Wales Audit Office staff have examined whether the Welsh Government's arrangements for regional consortia are likely to deliver the intended improvement in support to schools and local authorities. In reviewing the progress of regional consortia, we focused on the effectiveness of governance arrangements based on the Good Governance Standard for Public Services. The main fieldwork for the study was undertaken between August 2014 and January 2015 in collaboration with Estyn which has prepared and published a thematic survey report on the work of regional consortia for school improvement services.</p> <p>We concluded that after an uncertain start, the foundations for regional school improvement services are being established and there are positive signs of progress, but remaining weaknesses are hindering the development of the whole system and the effective governance and financial management of regional consortia.</p> <p><a href="http://www.audit.wales/publication/achieving-improvement-support-schools-through-regional-education-consortia-%E2%80%93-early-view">http://www.audit.wales/publication/achieving-improvement-support-schools-through-regional-education-consortia-%E2%80%93-early-view</a></p>	Not required - FCC not specifically mentioned in the report.	Not Applicable	Chief Officer - Education and Youth	Not Applicable	Not Applicable
<b>Foods Standards Agency</b>	Audit Date: Oct 2013  Follow up: Nov 2015	<b>Updated Action Plan (excluding Feed Service)</b>	Draft Action Plan Nov 2015	Of the 18 recommendations 7 had been completed and good progress had been made in the remaining 11.	No formal response has been made yet. The updated action plan received to date was only a draft within a proposed new format. The FSA just wanted comments on the proposed new format and not the content at this stage, which we have done. A response will be made to the published report.	Various - as per Action Plan (TBC)	Health Protection Manager	Not Applicable	Not Applicable
<b>Welsh Public Library Standards (WPLS)</b>	2014/15	<b>Review of Flintshire's performance against the WPLS</b>	Aug-15	<p><b>Extract from Executive Summary</b></p> <p>Flintshire met 17 of the 18 core entitlements in full, and partially met 1. Of the 7 quality indicators which have targets, Flintshire achieved 2 in full and 5 in part. More analysis in the return of areas of weaker performance would be beneficial and help provide context. The service has suffered from budget reductions and is now missing a substantial number of targets. Future progress could be static. However there are areas of strength, such as the request service and percentage of resources on materials.</p>	No formal response required.	Not Applicable	Principal Librarian	TBC	TBC

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## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday, 27 January 2016
<b>Report Subject</b>	Action Tracking
<b>Cabinet Member</b>	N/A
<b>Report Author</b>	Internal Audit Manager
<b>Category</b>	Advisory

### EXECUTIVE SUMMARY

The report shows the action points from previous meetings and the progress made in completing them. The majority of the requested actions have been completed, with some still outstanding. They will be reported back to a future meeting.

### RECOMMENDATIONS

1	The committee is requested to accept the report.
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE ACTION TRACKING REPORT</b>
1.01	A previous meetings requests for information, reports or actions have been made. These have been summarised as action points. This paper summarises those points and provides an update on the actions resulting from them.
<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None as a result of this report.
<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	Action owners contacted to provide an update on their actions.
<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	None as a result of this report.
<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Action Points.
<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None.  <b>Contact Officer:</b> David Webster, Internal Audit Manager <b>Telephone:</b> 01352 702248 <b>E-mail:</b> david.webster@flintshire.gov.uk
<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	None



## AUDIT COMMITTEE ACTION SHEET

<b>7<sup>TH</sup> MAY 2014</b>				
<b>Agenda Item No.</b>	<b>Report</b>	<b>Action Required</b>	<b>Responsible Officer</b>	<b>Action Taken</b>
93	Audit Committee self-assessment against CIPFA guide	The work of Internal Audit and the Policy, Performance and Partnerships team on external partnership governance and performance be shared with the Committee	Internal Audit Manager.	Audit completed, Amber/Green assurance level. Detail of the results given in the Progress Report.

<b>10<sup>TH</sup> DECEMBER 2014</b>				
<b>Agenda Item No.</b>	<b>Report</b>	<b>Action Required</b>	<b>Responsible Officer</b>	<b>Action Taken</b>
42	Internal Audit Progress Report	That the Internal Audit Manager make representations to the Wales Chief Auditors Group, on behalf of the Committee, for all Welsh Councils to participate in the benchmarking exercise.	Internal Audit Manager	Raised at WCAG meeting 24.7.15. Results for this year show increased participation, up from 15 Councils to 19. Benchmarking results are included in the Progress Report.

**3<sup>rd</sup> JUNE 2015**

<b>Agenda Item No.</b>	<b>Report</b>	<b>Action Required</b>	<b>Responsible Officer</b>	<b>Action Taken</b>
7	WAO Review of the Council's Whistleblowing Arrangements	To follow up with the Chief Officer (Education & Youth) the comments and concerns raised on the need for schools to adopt a whistleblowing policy.	Internal Audit Manager	Schools contacted to confirm whether they have a whistleblowing policy in place and provide details of the policy. Results passed to Chief Officer Education and Youth for follow up action.
12	Internal Audit Progress Report	To ensure that the audit on S106 Agreements is scheduled into the Plan for 2015/16.	Internal Audit Manager	Fieldwork completed, draft report produced.

**15<sup>th</sup> JULY 2015**

<b>Agenda Item No.</b>	<b>Report</b>	<b>Action Required</b>	<b>Responsible Officer</b>	<b>Action Taken</b>
23	Treasury Management	To bring the results of forthcoming work on loan rescheduling / interest payments in the next Treasury Management report to the Committee	Finance Manager – Technical Accounting	Part of Treasury Management report to this meeting.

**24<sup>th</sup> SEPTEMBER 2015**

<b>Agenda Item No.</b>	<b>Report</b>	<b>Action Required</b>	<b>Responsible Officer</b>	<b>Action Taken</b>
34	Statement of Accounts 2014/15	Set up an officer working group to correct the issues in the WAO audit of the Statement of Accounts	Chief Executive / Chief Officer Governance	Officer working group set up by Chief Executive. Group now meeting, First report to the 01.16 committee meeting.
34	Statement of Accounts 2014/15	Undertake a mop-up meeting in October / November 2015	Chief Executive / Corporate Finance Manager	Meeting held with all parties to contribute to the items above and below on 3 <sup>rd</sup> November 2015.
34	Statement of Accounts 2014/15	Share the findings of the review of Payroll with the Chair and Vice Chair informally in November 2015	Chief Executive / Internal Audit Manager	A specific action plan has been agreed and implemented based on the findings from the accounts process to address the issues and remove risks of future repetition. WAO have been involved and are satisfied with the level of assurance given by the Payroll Manager supported by Internal Audit who have since reviewed the service issues. The Chair and Vice Chair have been debriefed on the report, and are similarly satisfied. The final report of Internal Audit is included for the 01/16 Committee meeting.
34	Statement of Accounts 2014/15	Advise the Chief Officer Team of the importance of departments providing requested information or reports in a timely manner	Chief Executive	Actioned as part of the debrief to the Chief Officer Team on the annual accounts process (above). Officer working group to advise on any repeat risks in the 2015/16 accounts closure process and escalate to the Chief Executive as needed.

**24<sup>th</sup> SEPTEMBER 2015**

<b>Agenda Item No.</b>	<b>Report</b>	<b>Action Required</b>	<b>Responsible Officer</b>	<b>Action Taken</b>
34	Statement of Accounts 2014/15	Speak to the Employment Services Manager to ensure capacity and possibly discuss the need for temporary resources	Chief Executive	Actioned as part of the above.
34	Statement of Accounts 2014/15	Provide report to the January meeting of the Committee on any capacity issues and the issues raised in the WAO report	Chief Executive	Actioned. Report included in agenda 01.16 Committee meeting.
34	Statement of Accounts 2014/15	Provide a summary report on the latest position in relation to reserves on a quarterly basis to Cabinet and Corporate Resources Overview and Scrutiny through the monthly monitoring report (with the first update being in October 2015).	Corporate Finance Manager	Actioned. Updates were provided in October and December for Quarters 1 and 2 respectively.



## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday, 27 January 2016
<b>Report Subject</b>	Forward Work Programme
<b>Cabinet Member</b>	N/A
<b>Report Author</b>	Internal Audit Manager
<b>Category</b>	Advisory

### EXECUTIVE SUMMARY

The Audit Committee presents an opportunity for Members to determine the Forward Work programme of the Committee of which they are Members. By reviewing and prioritising the Forward Work Programme Members are able to ensure it is Member-led and includes the right issues. A copy of the Forward Work Programme is attached at Appendix 1 for Members' consideration which has been updated following the last meeting.

The Committee is asked to consider, and amend where necessary, the Forward Work Programme for the Audit Committee.

### RECOMMENDATION

1	That the Committee considers the draft Forward Work Programme and approve/amend as necessary.
2	That the Internal Audit Manager, in consultation with the Chair and Vice-Chair of the Committee be authorised to vary the Forward Work Programme between meetings, as the need arises.

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE FORWARD WORK PROGRAMME</b>
1.01	Items feed into a Committee's Forward Work Programme from a number of sources. Many items are standard every quarter, six months or annually, and Members can also suggest topics for review by the Committee. Items can also be referred by the Cabinet, County Council or Chief Officers.
1.02	<p>In identifying topics for future consideration, it is useful for a 'test of significance' to be applied. This can be achieved by asking a range of questions as follows:</p> <ol style="list-style-type: none"><li>1. Will the review contribute to the Council's priorities and/or objectives?</li><li>2. Is it an area of major change or risk?</li><li>3. Are there issues of concern in governance, risk management or internal control?</li><li>4. Is it relevant to the financial statements or financial affairs of the Council?</li><li>5. Is there new Government guidance of legislation?</li><li>6. Is it prompted by the work carried out by Regulators/Internal Audit?</li></ol>
<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None as a result of this report.
<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	Publication of this report constitutes consultation.
<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	None as a result of this report.
<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - Draft Forward Work Programme
<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>None.</p> <p><b>Contact Officer:</b> David Webster Internal Audit Manager</p> <p><b>Telephone:</b> 01352 702248</p> <p><b>E-mail:</b> <a href="mailto:david.webster@flintshire.gov.uk">david.webster@flintshire.gov.uk</a></p>

7.00	<b>GLOSSARY OF TERMS</b>
	<p><b><u>WAO, Wales Audit Office</u></b> works to support the Auditor General as the public sector watchdog for Wales. They aim to ensure that the people of Wales know whether public money is being managed wisely and that the public bodies in Wales understand how to improve outcomes.</p> <p><b><u>PSIAS, Public Sector Internal Audit Requirements</u></b> A set of standards that all Internal Audit teams working in the public sector must comply with.</p>

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**AUDIT COMMITTEE**  
**FORWARD WORK PROGRAMME 2016/17**

MEETING DATE	AGENDA ITEM	AUTHOR
<b>Wednesday 16<sup>th</sup> March 2016, 10.00</b>	Audit Plan (WAO)	
	Annual Improvement Report (WAO)	Karen Armstrong
	Treasury Management Update	Liz Thomas
	Asset Disposals and Capital Receipts	Neal Cockerton
	Internal Audit Progress Report	David Webster
	Internal Audit Strategic Plan	David Webster
	PSIAS Compliance	David Webster
	Audit Committee Self Assessment	David Webster
	Action Tracking	David Webster
	Forward Work Programme	David Webster
	Private Meeting (WAO and IA)	
<b>Wednesday 13<sup>th</sup> July 2016 10.00</b>	Certification of Grants and Returns Report (WAO)	Liz Thomas
	Draft Statement of Accounts	Gary Ferguson

MEETING DATE	AGENDA ITEM	AUTHOR
	Supplementary Financial Information to Draft Statement of Accounts 2015/16	Liz Thomas
	Draft Annual Governance Statement	Gareth Owens
	Treasury Management Update and Annual Report 2015/16	Liz Thomas
	Internal Audit Annual Report	David Webster
	Internal Audit Progress Report	David Webster
	Risk Management Update	Karen Armstrong
	Financial Procedure Rules	Sara Dulson
	Action Tracking	David Webster
	Forward Work Programme	David Webster
<b>September 2016</b>	Statement of Accounts 2015/16	Gary Ferguson
	Supplementary Financial Information to Statement of Accounts	Gary Ferguson
	Audit of Financial Statements (WAO)	
	Internal Audit Progress Report	David Webster

MEETING DATE	AGENDA ITEM	AUTHOR
	Corporate Governance Report	David Webster
	Action Tracking	David Webster
	Forward Work Programme	David Webster
<b>January 2017</b>	Internal Audit Progress Report	David Webster
	Risk Management update	Karen Armstrong
	Treasury Management Mid-Year Update and Strategy	Liz Thomas
	Annual Report on external inspections	David Webster
	Action Tracking	David Webster
	Forward Work Programme	David Webster

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## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday, 27 January 2016
<b>Report Subject</b>	Internal Audit Progress Report
<b>Cabinet Member</b>	Not Applicable
<b>Report Author</b>	Internal Audit Manager
<b>Type of Report</b>	Assurance

### EXECUTIVE SUMMARY

Internal Audit produces a progress report for the Audit Committee every quarter. This shows the position of the team against the plan, changes to the plan, final reports issued, action tracking, performance indicators and current investigations. This meets the requirements of the Public Sector Internal Audit Standards, and also enables the committee to fulfil the Terms of Reference with regards to Internal Audit.

The current report is attached.

### RECOMMENDATIONS

1	To consider and accept the report.
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### REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE INTERNAL AUDIT PROGRESS REPORT</b>
1.01	Internal Audit gives a progress report to the Audit Committee every quarter as part of the normal reporting process. The report is divided into several parts.

1.02	<p>Appendix A shows progress against the plan for 2015/16. This is broadly in line with expectations, although it has been affected by the transition to the new audit software, resulting in some audits exceeding their budgeted time. The delays have become fewer in the latest quarter. In addition, more than 60 days have been spent in developing, implementing and rolling out the new software and the procedures around it, which is more than expected.</p> <p>The plan is subject to change. A few reviews have been deferred from the plan because of changing circumstances, these are shown in Appendix B.</p>
1.03	<p>All reports finalised since the last committee meeting are shown in Appendix C. Members previously asked about the work on strategic partnerships, an outstanding action in the Action Tracking report. A summary of the recent audit report is given in Appendix C. The assurance level was amber/green – key controls in place but some fine tuning required.</p> <p>Details of the two ‘red’ reviews are given – Direct Payments and E Teach. The findings and recommendations in both of these reports are predominantly about value for money.</p> <p>Copies of all final reports are available for members if they wish to see them.</p>
1.04	<p>The integrated audit software is now being used for action tracking. All actions are now being tracked automatically, whereas under the previous manual system it was only possible to track the higher priority actions. The system allows Managers and Chief Officers to monitor their own teams’ outstanding actions and confirm they are being implemented.</p> <p>E mail alerts are generated by the system and sent to the responsible officer and their manager before the action is due. E mails are also sent to them and copied to Chief Officers if actions are not completed on time. Monthly reports will also be sent to Chief Officers informing them of outstanding actions for their teams.</p> <p>The system was rolled out from the 4<sup>th</sup> January 2016, including requiring all managers and Chief Officers to register. It included all actions from reports issued since April 2015, along with outstanding actions previously tracked. As such there is a large backlog of actions which should have been completed but which need to be closed on the system.</p> <p>Given the short period of time it would be unrealistic to expect them to be cleared prior to this report being produced. Statistics and detail will be given in the next progress report to the March meeting.</p>
1.05	<p>Appendix D shows the range of performance indicators for the department. This is still reflecting the introduction of the new software. Audits completed within planned time has improved greatly, but there was a problem with issuing reports on time. The statistics cover the second quarter, July to September, so were greatly affected by annual leave.</p>
1.06	<p>Appendix E shows benchmarking undertaken by the Wales Chief Auditors Group. This is completed on a voluntary basis for mutual benefit. For 2014/15 nineteen Councils took part in the benchmarking, up from fifteen</p>

	in the previous year. The annual results for Flintshire compared to the averages are shown, along with the ranking position. The majority of these show Flintshire performing better than average and within the top half in terms of ranking.
1.07	Appendix F shows the status of current investigations into alleged fraud or irregularities. The table includes the start dates of the investigations.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None as a direct result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None required.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	The work of Internal Audit provides assurance to the Council that adequate and effective controls are in place to mitigate risks.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix A – Operational Plan 2015/16 Appendix B – Changes to the Operational Plan Appendix C – Final reports issued Appendix D – Performance Indicators Appendix E – WCAG Benchmarking Appendix F – Investigations

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None.  <b>Contact Officer:</b> David Webster, Internal Audit Manager <b>Telephone:</b> 01352 702248 <b>E-mail:</b> david.webster@flintshire.gov.uk

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<b>Wales Audit Office:</b> works to support the Auditor General as the public sector watchdog for Wales. They aim to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.

**Corporate Governance:** the system by which local authorities direct and control their functions and relate to their communities. It is founded on the basic principles of openness and inclusivity, integrity and accountability together with the overarching concept of leadership. It is an inter-related system that brings together the underlying set of legislative requirements, governance principles and management processes.

**Wales Chief Auditors Group:** An informal meeting group of Chief Auditors to discuss items of mutual interest.

**Operational Plan:** the annual plan of work for the Internal Audit team.



## Appendix A

### Operational Plan 2015/16

Audit	Audit Classification	IA Risk Rating	Plan Days	Actual Days	Proposed quarter / Status
<b>Corporate</b>					
Delivery of the Business Plans	Advisory VFM /	R	40	9	WIP
Risk Management	Risk Based	A	10	2	WIP
Clwyd Theatre Cymru	Follow Up	A	10	2	WIP
North Wales Residual Waste Partnership	Risk Based	A	10		WIP
Corporate Governance	Risk Based	G	5		4
<b>Total Planned Days – Corporate</b>			<b>75</b>	<b>13</b>	
<b>Community and Enterprise</b>					
NEW Homes	Risk Based	R	10	12	DRAFT
Homelessness	Risk Based	R	15		4
Housing Benefit	System Based	R	15	5	WIP
Council Tax and NNDR	System Based	R	20	27	DRAFT
Corporate Debt Management	Risk Based	R	15	16	FINAL
<b>Total Planned Days – Community &amp; Enterprise</b>			<b>75</b>	<b>60</b>	
<b>Education and Youth</b>					
Control and Risk Self-Assessment	Risk Based	R	15	19	COMPLETE
Risk based thematic reviews across all schools including central controls	Risk Based	R	45	5	WIP
21 <sup>st</sup> Century Schools – project management	Risk Based	R	15	2	WIP
Grants – Various WG requirement	System Based	R	15	14	COMPLETE
Free school meals - Funding arrangements	System Based	R	15	25	FINAL
School closures	Advisory	G	5		COMPLETE
<b>Total Planned Days – Education &amp; Youth</b>			<b>110</b>	<b>65</b>	

Audit	Audit Classification	IA Risk Rating	Plan Days	Actual Days	Proposed quarter / Status
<b>Governance</b>					
Chair of the Council's Charity / Trust Fund	Risk Based		10	10	FINAL
Network Security	Risk Based	R	* See note		DEFERRED
FOI Requests	Risk Based	R	15	13	WIP
Data Protection	Advisory	R	10	11	WIP
Migration to Microsoft	Risk Based	R	15		4
Disposal of ICT Equipment	Risk Based	A	10	7	WIP
Payment Card Industry Data Security Standard	Risk Based	A	20	1	WIP
Cloud computing	Risk Based	A	* See note		4
Anti-virus procedures	Risk Based	A	15	19	WIP
E Sourcing (Proactis)	System Based	A	15		DEFERRED
Select List Including Financial Vetting of Suppliers	System Based	A	20		DEFERRED
Contract Procedural Rules	Risk Based	A	20	33	FINAL
Electoral Register	Advisory	A	5		DELETED
<b>Total Planned Days - Governance</b>			<b>155</b>	<b>94</b>	
<b>Organisational Change 1</b>					
Alternative Delivery Models	VFM	R	20	23	COMPLETE
Leisure Services	System Based	G	20		4
Japanese Youth Exchange	Regulatory	G	5	3	FINAL
<b>Total Planned Days – Organisational Change 1</b>			<b>45</b>	<b>26</b>	

Audit	Audit Classification	IA Risk Rating	Plan Days	Actual Days	Proposed quarter / Status
<b>Organisational Change 2</b>					
Electronic stock taking (catering bus plan)	Advisory	A	5		4
21 <sup>st</sup> Century Schools – contract management	Systems Based	A	15		4
CCTV	Risk Based	A	15	4	WIP
<b>Total Planned Days – Organisational Change 2</b>			<b>35</b>	<b>4</b>	
<b>People and Resources</b>					
Payroll Follow up	Risk Based	R		12	FINAL
Payroll	System Based	R	20		4
E-Teach (Supply Staff) – Payroll and Recruitment	VFM	R	20	31	FINAL
Use of Relief, Agency and Self Employed Workers	Risk Based	R	20	1	WIP
Agile Working	Risk Base	A	20		4
Human Concepts Software	Advisory	G	5	1	COMPLETE
Main Accounting – Accounts Receivable (AR)	System Based	R	10	7	WIP
Main Accounting – Accounts Payable (AP) / P2P	System Based	R	20	21	DRAFT
Main Accounting – General Ledger (GL)	System Based	R	10	8	DRAFT
Treasury Management	System Based	R	15	1	WIP
Capital Programme	Follow Up	R	5	1	WIP
Insurance	Risk Based	R	10		WIP
Medium Term Financial Strategy	Risk Based	A	10		4
Collaborative Planning	Risk Based	G	5	7	WIP
Pensions Administration and Contributions	System Based	G	15		3
Pension Fund Governance	System Based	G	10		4

Audit	Audit Classification	IA Risk Rating	Plan Days	Actual Days	Proposed quarter / Status
<b>Total Planned Days – People &amp; Resources</b>			<b>195</b>	<b>90</b>	
<b>Planning and Environment</b>					
Section 106 Agreements	Risk Based	R	15	19	DRAFT
Pest Control	Risk Based	A	5	1	WIP
Pollution Control	Risk Based	G	15		4
<b>Total Planned Days – Planning &amp; Environment</b>			<b>35</b>	<b>20</b>	
<b>Social Services</b>					
Client Finances / Receivership, including Community Living	Risk Based	R	20	3	WIP
Residential Care Homes	Advisory	R	20	14	FINAL
Direct Payments	System Based	R	20	23	FINAL
PARIS – Finance Module	Advisory	A	5		4
<b>Total Planned Days – Social Services</b>			<b>65</b>	<b>40</b>	
<b>Streetscene and Transportation</b>					
Concessionary Travel	Risk Based	R	20		4
School Transport – Contract Management	Risk Based	R	10		4
Waste Contract Management	Follow up	R	15		4
Waste Management	Follow Up	R	15		4
Integrated Transport	Advisory	R	5		WIP
Fleet Management	Advisory	A	5		WIP
<b>Total Planned Days – Streetscene &amp; Transportation</b>			<b>70</b>	<b>0</b>	

<b>Investigations, Provisions and Developments</b>		
Provision for investigations and pro-active fraud	200	187
Provision for ad-hoc requests from management	80	
Follow up reviews	30	
Audit development	20	69
IDEA	20	
Advisory work	40	13
<b>Total</b>	<b>390</b>	<b>269</b>
<b>Overall Plan Total</b>	<b>1250</b>	<b>681</b>

\* Note: It may be necessary to bring in external resource to complete this technical ICT audit

## Definitions

### Risk based audits

Work based on strategic and operational risks identified by the organisation in the Improvement Plan and Service Plans. Risks are linked to the organisation's objectives and represent the possibility that the objectives will not be achieved.

### Systems based audits

Work in which every aspect and stage of the audited subject is considered, within the agreed scope of the audit. It includes review of both the design and operation of controls.

### Advisory

Participation in various projects and developments in order to ensure that controls are in place.

### VFM (Value For Money)

Audits examining the efficiency, effectiveness and economy of the area under review.

### Follow Up

Audits to follow up recommendations from previous reviews.

### Additions

Audits added to the plan at the request of management, time used from the provision for requests.

**CHANGES TO THE AUDIT PLAN – SINCE THE LAST MEETING**

**Audits deleted /deferred from the plan**

**Governance**

Network Security – unable to obtain an external resource to complete this audit.

E Sourcing (Proactis) – system still being rolled out.

Select list – will be covered by Proactis

**CHANGES REPORTED TO PREVIOUS MEETINGS**

**Audits deleted /deferred from the plan**

**Governance**

Electoral Register – data matching against other databases no longer required.

**Audits added to the audit plan**

**Community and Enterprise**

Flying Start – request from new management.

**Social Services**

Housing Allocations – Controls around the new process

## Appendix C

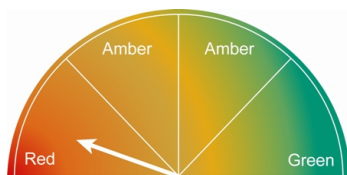
The following reports have been finalised since the last Audit Committee. Action plans are in place to address the weaknesses identified. For reviews which received red assurance a summary of the findings and the Action Plan is attached.

Project Reference	Project Description	Level of Assurance	Recommendations		
			High	Med	Low
14-2015/16	Corporate Debt Management	Amber +	0	2	4
20-2014/15	School Funding Formula	Amber +	0	2	3
04-2015/16	Direct Payments	Red	2	4	0
24-2015/15	Single Status Payments	Green	0	0	2
21-2015/16	Chair of the Council's Charity	Amber -	1	2	1
03-2015/16	Japanese Youth Exchange	n/a	0	0	0
07-2015/16	School Meal Funding	Amber +	0	1	4
04-2014/15	Strategic Partnerships	Amber +	0	1	3
05-2015/16	Contract Procedural Rules	Amber -	0	6	2
4SF-2015/16	Payroll	Green	0	1	3
20-2015/16	Eteach	Red	3	1	0
06-2014/15	Consultancy Costs	Red	1	9	1
06-2015/16	Residential Care Homes	n/a	0	0	0

### Levels of Assurance – standard reports.

The audit opinion is the level of assurance that Internal Audit can give to management and all other stakeholders on the adequacy and effectiveness of controls within the area audited. It is assessed following the completion of the audit and is based on the findings from the audit. Progress on the implementation of

agreed actions will be monitored. Findings from **Red** assurance audits or audits with **High** level recommendations will be reported to the Audit Committee.



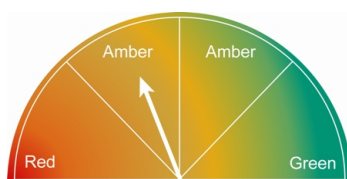
**Urgent system revision required (one or more of the following)**

- Key controls are absent or rarely applied
- Evidence of (or the potential for) significant financial / other losses
- Key management information does not exist
- System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources.

Impact: a lack of adequate or effective controls leading to a high probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.

**Significant improvement in control environment required (one or more of the following)**

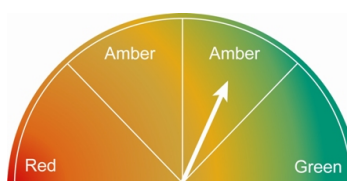
- Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively
- Evidence of (or the potential for) financial / other loss
- Key management information exists but is unreliable
- System / process objectives are not being met, or are being met at an unnecessary cost or use of resources.



Impact: key controls are generally inadequate or ineffective and there is an increased probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.

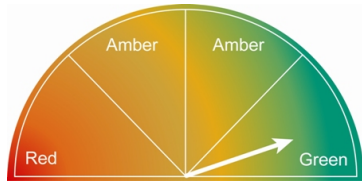
**Key Controls in place but some fine tuning required (one or more of the following)**

- Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact
- Some refinement or addition of controls would enhance the control environment
- Key objectives could be better achieved with some relatively minor adjustments



Impact: key controls generally operating effectively but there remains a potential risk of loss, fraud, impropriety or damage to reputation and / or failure to deliver organisational objectives.





**Strong controls in place (all or most of the following)**

- Key controls exist and are applied consistently and effectively
- Objectives achieved in a pragmatic and cost effective manner
- Compliance with relevant regulations and procedures
- Assets safeguarded
- Information reliable

Impact: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.

**Levels of Assurance – follow up reports.**

Substantial. 75%+ of recommendations have been implemented. All high recommendations have been implemented.

Reasonable. 51-75% of recommendations have been implemented. All high recommendations have been implemented.

Some. 30-50% of recommendations have been implemented. Any outstanding high recommendations are in the process of being implemented.

Limited. <30% of recommendations have been implemented. Unsatisfactory progress has been made on the implementation of high recommendations.

**Categorisation of Recommendations**

High, Medium, Low

Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses

**Value For Money**

The definition of Internal Audit within the Audit Charter includes ‘It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources.’ These value for money findings and recommendations are included within audit reports.

The findings from both the Direct Payments report and the E Teach report are predominantly about value for money

## **Strategic Partnerships – Self Assessments.**

An action from the Audit Committee meeting in May 2014 was to share the work of Internal Audit and the Policy, Partnership and Performance team on external partnership governance and performance. That resulted in an audit review in 2014/15, and the report has now been finalised. The results are as follows.

During 2014/15 there were 8 strategic partnerships within Flintshire. Each strategic partnership is required to carry out an annual self-assessment to assess the effectiveness of strategic partnership working. It was agreed the audit would review and consider the adequacy of the controls in place around the strategic partnership self assessment process.

The assurance level given in the report is Amber / Green – key controls in place but some fine tuning required.

Areas managed well include

There is a robust framework in place for the self-assessment of strategic partnerships.

Strategic partnerships accept the need for a self-assessment process, and as such appropriate resources are given to the completion of the assessment and dissemination of feedback.

Results of the annual self-assessment of the strategic partnerships are reported back to the LSB.

However, it was recognised that the self-assessment documentation in use was no longer fit for purpose. The partnership landscape has changed over the last few years and as such the assessment no longer asks the right questions, the documentation is overly bureaucratic, lengthy and repetitive.

Internal Audit researched and produced an updated template for the self-assessment based on a CIPFA document – ‘Evaluating Partnerships – An Overview and Compendium of Approaches’. This is being used as a starting point from which the Partnerships team can develop the partnership governance framework.

## Summary of Findings and Action Plan of Reviews with Red Assurance level

### Direct Payments – 04-2015/16

We have made 2 high level recommendations and 4 medium level recommendations based on the following:

- The need for closer monitoring of Direct Payment accounts. All actions should be addressed and a review of details maintained on individual service users undertaken to ensure the accuracy of payments.
- Annual Reviews on Direct Payment recipients need to be prioritised and brought up to date.
- The appropriate data fields should be fully completed on PARIS to evidence compliance with regulations regarding Direct Payments.
- Compliance under the terms and conditions of the contract with the support agency should be more closely monitored and the appropriate monitoring information collected and collated.
- A formal monitoring tool to assess the impact/success of direct payments would be beneficial as would a more formal financial strategic policy document.
- A robust process is needed to ensure all jointly funded direct payment recipients are captured on the database maintained by the Financial Assessments Team

No.	Findings and Implications	Agreed Action	Who	When
1	<p>Financial monitoring of direct payments used to be undertaken by the Financial Monitoring Officer and signed off by the Financial Development Officer. When the Financial Monitoring Officer left their post this function was passed over to the Financial Assessment Team.</p> <p>We tested a sample of 20 direct payment recipients and looked at the financial monitoring that had taken place on their accounts. We found a significant number of shortcomings on the financial monitoring. These identify:</p>	<p>A clearly defined and robust monitoring process will be implemented by the Financial Assessment and Charging Team (FACT) to ensure all direct payment recipient accounts are brought up to date and all resulting actions or queries responded to. Management will consider instigating regular meetings with the relevant Reviewing Officer/Social Worker to ensure all issues are resolved in a timely manner.</p> <p>Management will carry out a full review of payment information held for direct payment recipients and ensure details agree between the</p>	Senior Financial Assessment Officer	31/12/2015

No.	Findings and Implications	Agreed Action	Who	When
	<ul style="list-style-type: none"> <li>• Only 15 per cent (3/20) of service users sent in the required documentation, which includes invoices to support expenditure.</li> <li>• In the remaining cases bank statements and occasionally Income and Expenditure sheets had been submitted. Financial monitoring notes did highlight key records had not been sent in but these have not been acted upon. The support agency have been contacted but the situation has not improved.</li> <li>• Only 15 per cent (3/20) of the financial monitoring sheets were up to date. For some of our sample regular monitoring was first established and then there was no further monitoring over a two year period.</li> <li>• There appears to be an issue with the independent payroll provider, in receiving information requested from them in order to monitor certain service user accounts.</li> <li>• 15 per cent (3/20) of our sample have a regular excessive bank balance but these have not been resolved or monitored regularly. In one case a service user has over £20k in their bank account. A note has been recently added to PARIS to highlight this but no action has been taken to date. This service user appears to be being paid too much by the Authority in relation to the proportion between Health and Flintshire.</li> <li>• 5 per cent (1/20) of financial monitoring has picked up unauthorised hours of care being purchased and a request for an Annual Financial Review made. This has not been undertaken.</li> </ul> <p>As part of our review of the direct payments we also examined the payments on FACT and compared these</p>	<p>PARIS system, Financial Assessment records and Care plans are still relevant and appropriate.</p> <p>The operational group will be re-instated and membership reviewed. FACT and Development Officer for this action.</p> <p>The Direct Payments Service User start up letter will be reviewed ensuring the expectations around monitoring requirements are very clear.</p> <p>The current Direct Payment Agreement Documents will be reviewed and made more user friendly.</p> <p>Ensure all Service Users have a signed agreement on their file.</p> <p>Develop procedures for stopping payments if there is noncompliance with financial regulations and procedures. FACT and Development Officer for this action.</p> <p>Agree a clear process when a Service User does not pay their contribution in to the account. FACT and Senior Manager for this action.</p> <p>Agree the context of training session with Social Workers to ensure they know what is required of them when they are setting up a Direct Payment for a Service User. Deliver training through Team Meetings. FACT and Service Managers for this action.</p> <p>Run a report to identify Service Users on different</p>		

No.	Findings and Implications	Agreed Action	Who	When
	<p>details to PARIS under Service Information. Several anomalies were found:</p> <ul style="list-style-type: none"> <li>• 30 per cent (6/20) of service users in receipt of a Direct Payment (DP) package was showing as 'zero' DP on PARIS.</li> <li>• Only 15 per cent (3/20) of the DP details in PARIS agreed to the FACT system, with the majority differing between the FACT system and Care Plan details.</li> <li>• Hourly rates have often not been updated to reflect the rates actually being paid. There were also instances where several different rates of pay were being paid to service users. These rates were also different from the current DP rates of pay provided to us.</li> <li>• In one case it was identified that a service user is still being paid DP despite notes on PARIS saying this case has been closed in March 2015.</li> <li>• An issue has been raised on PARIS regarding one Direct Payment recipient living with her provider who manages the Direct Payments and also pays herself. This has not been responded to.</li> </ul>	<p>payment rate. Formalise our position relating to rates and adopt. FACT and Senior Managers.</p> <p>Amend lotus database to add 2 new fields, Joint packages &amp; review date</p> <p>Develop a monitoring tool either with Accountancy Investigate with other Authorities their procedures around financial risks</p> <p>Ensure clear procedures are in place before any new Provide Assisted Direct Payments are set up</p> <p>Run a report from Paris to see what forms have been jointly funded with Health</p> <p>Produce a checklist for closing Direct Payment when they are for very small amounts and Accountancy don't need to be involved. FACT and Accountancy.</p> <p>Ensure Financial Assessment Officers have training on Children's Services in Paris. FACT and Business Systems Team.</p> <p>Implement agreed approach for hospital and respite retainers. FACT and Senior Managers.</p> <p>Review Learning Disability night rate of £111.28</p> <p>Senior Financial Assessment Officer to meet with all Financial Assessment Officers to discuss their Direct payment caseload and produce action plans where necessary.</p>		

No.	Findings and Implications	Agreed Action	Who	When
		The implementation of Direct Payments Card will strengthen financial oversight of Direct Payments. FACT Team and Business Manager.		
2	<p>The Social Services Finance Team are responsible for undertaking a financial review of every service user's account annually, however there is a resource issue within the department so it has not been possible to look at all accounts as per the guidance. It has been agreed within the service, until extra resource is obtained, to monitor cases with known issues or 'higher risk'. The Team are hoping to have the extra resource in post by September and the Finance Officer is keen to find a resolution to ensure the appropriate level of monitoring is taking place and is intending to split the financial reviews between all finance officers in the short term to avoid a large backlog developing.</p> <p>As part of the Audit we looked at a sample of 20 direct payment recipients financial assessment files for evidence of an annual financial review. This identified that five cases were not due an annual financial review.</p> <p>For the remaining 15 cases there was no evidence on file for any Annual Financial Review having been completed for seven cases, whilst seven files demonstrated service users had had one Annual Financial Review but these were not up to date (last review in one case dating back to 2013). Only in one case was it found that the Annual Financial Reviews had taken place and were up to date.</p> <p>Overall testing revealed that there are large numbers of</p>	<p>Management will implement a process to identify Annual Financial reviews needing completion, and whilst recognising there is a resource issue, liaising closely with the Financial Assessments Team to prioritise financial reviews where there are known issues and for those never having had a financial review since the beginning of the direct payment start up.</p> <p>Set a target of 1 financial review completion per team member per working day. If any team members are able to achieve a greater output than this then it will be encouraged in order to clear the backlog more quickly. When the backlog is cleared, more permanent arrangements will be determined for ongoing service provision.</p> <p>The Accountant will implement a process for team members to record their daily completions and will at the end of each completed week summarise progress and identify and address any issues where individual team members are unable to meet their assigned quota of review completions. Collective progress will then be reported to Social Services Management team with the aim of achievement of an immediate and sustained reduction in the backlog of case files awaiting their annual review.</p>	Finance Officer	31/12/2015

No.	Findings and Implications	Agreed Action	Who	When
	<p>Annual Financial Reviews that have not been completed and that the majority of Direct Payment recipient files require bringing up to date.</p> <p>A review of the Annual Financial Review design itself was completed and found that this alone would not detect unauthorised purchasing of hours for care as it merely reconciles the bank account to the income and expenditure presented and highlights any excess or shortage of funds in the bank.</p>	<p>Consider the benefits of reinstating the financial risk measure that was developed within the DP Financial Monitoring Process. This would help prioritise financial reviews. This tool was based on the model designed by the Chartered Institute of Public Finance and Accountancy (CIPFA)</p>		
3	<p>It was not possible from our testing to verify full compliance with the assessment process as not all fields are completed on PARIS.</p> <p>Often the fields for entering whether the service user has accepted the offer of a Direct Payment are left blank. Consequently, there is no way of assessing whether the package is less in monetary terms than the accessing of social services in the traditional way.</p>	<p>Management will introduce procedures to ensure details of individual cases are entered comprehensively on PARIS as this is the main record for Direct Payment cases. The Fact Team will work with the Social Work Team Managers for this action.</p> <p>Within the latest DP Financial Monitoring Draft was a proposal for a DP Audit page within Paris to help with recording and retaining statistical information. The department will investigate this further. The Business Systems Team Will work with the FACT Team on this action.</p>	Senior Financial Assessment Officer	31/03/2016
4	<p>We reviewed the quality of the information sent from the support agency to the Authority.</p> <ul style="list-style-type: none"> <li>Each quarter the Trust submits a report entitled 'Direct Payments Information and Advice Support Service'. This includes details of the current staffing and management of the service together with information regarding meetings, events and staff training. Local updates are included as are the numbers of those receiving a payroll service and Third Party Supported Accounts. A sample of</li> </ul>	<p>Management will ensure robust contract management arrangements are in place to ensure full compliance under the terms and conditions of the contract with the support agency in order to assess value for money and desired outcomes. The support agency are working closely with operational services to enhance their performance date.</p> <p>A full monitoring review of the support agency will be undertaken within the next 6 weeks with an agreed action plan developed to ensure proper</p>	Senior Manager – Commissioning and Performance	30/11/2015

No.	Findings and Implications	Agreed Action	Who	When
	<p>comments on feedback are included.</p> <ul style="list-style-type: none"> <li>• Statistical information is provided each quarter in the form of Pie Charts showing the total numbers in receipt of Direct Payments, the number of referrals in the quarter and referrals by Team, gender age and ethnicity. The total number of recipients of DPs are shown by percentage receiving high, medium and low support.</li> <li>• A spreadsheet of referrals in each quarter is maintained detailing the name, address, date of birth and telephone numbers of those referred. The team referred from with action date and start date is provided. Other information supplied each quarter includes a DBS recording sheet and a Personal Assistant (PA) Path Finder Report.</li> </ul> <p>Whilst the report sent quarterly from the support agency contains useful general information it is not possible to monitor whether they are successful at achieving a 'throughput' of 6 months support, the desired outcome from the support service.</p> <p>The contract with the support agency clearly stipulates the required level of monitoring from the agency under section 6 of the Service Specification. The quarterly monitoring should include details of assessment and outcome such as those referred for assessment or to other services, the number of people leaving the scheme within 12 months and those waiting for a service and the length of time they have been waiting. The number of comments, compliments and complaints should include details of content and any applicable actions.</p>	<p>assurance can be given on the outcomes achieved by the organisation.</p>		



No.	Findings and Implications	Agreed Action	Who	When
	<p>In addition to the quarterly monitoring, the support agency are required under section 8 and 9 of the Service Specification section of the contract, to submit annual reports showing how the funding has been used, outcomes and outputs in relation to the Provider performance indicators and details of outcomes achieved. Performance Indicators are detailed at section 3 of the Service Specification section of the contract. These include:</p> <ul style="list-style-type: none"> <li>• To provide 60 hours of support per week to meet the needs of the people using the service.</li> <li>• 100% of new people using the service should be enabled to set up and manage their Direct Payment independently within 6 months.</li> <li>• Monitoring information should be received within one month after the end of each quarter.</li> </ul> <p>Outcomes are monitored on service users being able to recruit, select and manage their individual support and understand their responsibilities. To be able to assess whether outcomes are being achieved the support agency should have developed and maintained a system of quality assurance which demonstrates that support needs of service users are being effectively responded to and met. This should include customer satisfaction questionnaires, research and consultation with service users and ongoing monitoring and evaluation of the service. We were informed that all monitoring information is sent in quarterly and the support agency's Annual Reports are published on their website. We looked at the latest Annual Report for 2014 on the website and observed that this is a general national report and does not contain local monitoring</p>			

No.	Findings and Implications	Agreed Action	Who	When
	<p>information required by the Authority's contract with them.</p> <p>Consequently the Authority cannot gain assurance the support agency are achieving their outcomes through the monitoring and performance information produced.</p>			
5	<p>The Financial Development Officer has reported that a financial efficiency has been linked to an increase in uptake of direct payments and that this has been recorded within the Services' strategic plans. An approximate saving of £1m has been identified as deliverable by 2017/18. However, this is based on the rationale that approximately 450 Older People receive domiciliary care per week at an extra cost per week of £43.37 over the cost of direct payments. The assumption is that all 450 will transfer to direct payments to achieve the saving. Currently there are 46 Older People receiving direct payments.</p> <p>A number of cost comparisons have been undertaken by the Financial Development Officer on the potential savings of direct payments over the cost of traditional savings. The most recent comparison shows totals for the year 2012/13 with an approximate saving of £500k on direct payments as against traditional services.</p> <p>It must be noted that this cost comparison shows an approximate annual cost of direct payments at £1.6m. the numbers of direct payments have greatly increased since these figures were produced and taking the June 2015 Direct payment run figure as a 'norm' the annual cost of direct payments is now at around £4m excluding the support agency cost of £65k. The cost comparisons</p>	<p>The Authority to implement a formal monitoring tool to be able to assess how direct payments are working. To be able to assess whether they are successful the Authority will need to look at two distinct areas.</p> <ol style="list-style-type: none"> <li>1. Demand for managed services- what has been the pattern since the onset of DP s</li> <li>2. Has there been a reduction in dependency for service users, in other words has the support agency delivered on outcomes?</li> </ol> <p>Also have there been any efficiencies seen in budgets for managed services?</p> <p>As take up of direct payments is being targeted a Financial Strategy will be developed and reviewed every 6 months to take account of different pressures such as the added costs of pension provision for service users as employers and so on.</p>	Development Officer	31/12/2015

No.	Findings and Implications	Agreed Action	Who	When
	<p>are all taken against the hourly rate for traditional services which is always higher than the hourly rate paid to the direct payment recipients so will always result in a 'saving' by comparison. Not all recipients are paid at an hourly rate however, some are on annual or monthly budgets which may be more difficult to assess the traditional route comparison.</p> <p>At no point has an analysis been undertaken using comparative figures on spend since the inception of direct payments to gain a fuller picture of actual efficiencies.</p>			
6	<p>Direct Payment funding comes out of individual service area budgets but they are often jointly funded with the Local Health Board depending on the nature of support required.</p> <p>The Social Workers/Reviewing Officers should complete the Service Information tab on PARIS so that it is clear on the cost of the funding and where it is coming from. Our review of a sample of 20 direct payment recipients revealed that the service information field within PARIS is often not completed and the cost of the packages are put at 'zero'. Almost half of our sample either had the package cost as zero or no details at all.</p> <p>The Financial Assessment Team are heavily reliant on being notified of all cases with joint funding. There is little confidence that the team has a full record of all such cases. Where service users revert to traditional services this will be picked up by the monitoring but as this is not up to date it is possible for direct payments to be continued for a time after they should have stopped.</p>	<p>Management will review all jointly funded Direct Payment recipients and ensure a clear process ensures all are captured on the spreadsheet maintained by the Financial Assessment Team Officer responsible for the recharging of funds to the Local Health Board.</p>	Senior Financial Assessment Officer	31/12/2015

## Eteach – 20-2015/16

We have made 3 high level recommendations and 1 medium level recommendation based on the following:

- E Teach needs to be procured in compliance with the Contract Procedure Rules and the Official Journal of the European Union. Any procurement exercise must ensure there is a robust contract, including Terms of Reference of the work to be commissioned, in place.
- It is unclear currently whether E Teach does provide value for money as a comparison to other available options has never been undertaken.
- A data cleansing exercise needs to be carried out on all users of the E Teach system to ensure that staff who have left the employ of the Authority are prevented from accessing the system and that staff who no longer need access are removed on a timely basis. This would reduce the risk of a breach in Data Security.
- E Teach guidance/procedure notes need to be in place in Employment Services and at individual schools.
- 

No.	Findings and Implications	Agreed Action	Who	When
1	As part of the audit review a copy of the Contract with E Teach was requested from Employment Services but this could not be located. A copy was later obtained directly from E Teach. The signed contract provided dated back to 2003 for the E Teach Booking system only. In 2013, Employment Services inherited and took over the management of the E Teach system whilst the budget for the payment of the system invoices remained within Education and Youth. Since 2003, the contract has been rolled over annually following the payment of the invoices for the E Teach licences. Following the debrief meeting to discuss the draft report a copy of a signed contract, dating back to 2003, for the Register/Booking Module was provided by the Employment Services Manager.	Employment Services have already made contact with the Corporate Procurement Unit and currently in the process of applying for a tender exemption. Employment Services will continue to liaise with the unit for further advice to ensure compliance with the Council's CPRs.  FCC will retain a copy of an appropriately signed contract, including terms of reference, covering all services provided by E Teach.  UR 00153	Employment Services Manager	31/03/16

No.	Findings and Implications	Agreed Action	Who	When
	<p>The Authority currently uses two modules of E Teach. The Recruitment module and the Register/Booking Module. The current contract period for the Recruitment module is 01/09/2014 to 31/08/2015 and the Booking module licence runs from 12/02/2015 to 11/02/2016.</p> <p>Currently the Authority funds £44k per annum for the use of E Teach. This split between £20k for the Recruitment module and £24k for the Supply Register/Booking module. This includes two annual licences one for each of the above modules. The total cost of the contract over a four year period is circa £176k.</p> <p>The contract with E Teach has been in place for 12 years without any evidence of testing the market, competitive tendering, or applying for CPR exemptions during this period.</p> <p>The Council's Procurement Unit were consulted and they confirmed that either a full OJEU tender exercise or a 'call off' from a compliant framework agreement (if one exists) should have been undertaken. In the absence of these an exemption under the CPR's should be applied as stated in the Council's CPRs:</p> <ul style="list-style-type: none"> <li>• CPR 10.2(c) "The works/goods/services can be provided only by a particular contractor for reasons that are technical, artistic, or connected with the protection of exclusive rights"; and</li> <li>• CPR (g) "that goods are required as a partial replacement or addition to existing goods or installations and obtaining them from another contractor would result in compatibility or disproportionate technical difficulties in operation or maintenance".</li> </ul>			

No.	Findings and Implications	Agreed Action	Who	When
	<p>Whilst there are general terms and conditions within the contract for E Teach there is an absence of a specific terms of reference / service specification. This may have been in place in 2003 but it cannot be located and would probably be out of date some 12 years later as there have been developments and system changes.</p> <p>At present E Teach is being used for the supply register and the recruitment module. When the contract was originally placed with E Teach this was only for the supply register and the recruitment module was a subsequent addition. There has been some discussion as to whether this is two contracts with E Teach rather than one and whilst an addendum to the supply register contract has been found, there is no direct reference within the paperwork that this relates to the recruitment module. Whilst there are two licence fees, these are to one company and accessed via one system consequently, in accordance with the Council's CPRs aggregation of spend has to be considered.</p>			
2	<p>The Internal Audit Report (LL0190N1) issued in 2010 recommended an evaluation of the most cost effective and efficient method of recruiting supply teachers by comparing E Teach and agency placements. This recommendation was accepted but at the time of this audit review an evaluation had still not been carried out to determine whether E Teach provides value for money.</p> <p>A similar exercise has been carried out by a neighbouring authority to evaluate the most cost effective and efficient method of recruiting supply teachers by comparing E Teach costs and agency costs. Their review evaluated the existing arrangements and considered alternative options which could be made available to schools, which would</p>	<p>The true cost of how much is spent through the use of E Teach needs to be identified. To address this a cost comparison exercise will be completed on the costs of using agency placements for supply teachers in comparison to the E Teach system.</p> <p>Based on the outcome of the cost comparison exercise the current arrangements will be reviewed. The outcome of this review may have an impact on the SLA HR has with Schools.</p> <p>UR 00163</p>	<p>Accountant</p> <p>Employment Services Manager</p>	<p>31/12/15</p> <p>31/03/16</p>

No.	Findings and Implications	Agreed Action	Who	When
	<p>also enable efficiencies to be made on supply expenditure. The review identified that E Teach was cheaper for support staff only. It is also understood that neighbouring authority are to retain E Teach for Welsh Medium &amp; Specialist Teachers. However the neighbouring will now use New Directions for general supply teachers.</p> <p>New Directions has been adopted as the preferred agency supplier from the All Wales Framework. A report has been produced by New Directions which shows the potential savings for Flintshire if we used this Agency for all supply staff i.e. discontinued the use of E Teach.</p> <p>Whilst Flintshire use New Directions, six other agencies are also used include E Teach. Education Finance were approached and confirmed the cost of Agency staff for 2014/15 totalled £1.9 million with Capita having the highest spend of £666K. Despite numerous requests it has not been possible to identify how much the authority spends on supply staff through E Teach.</p> <p>Without this information it is impossible to carry out an evaluation of the most cost effective and efficient method of recruiting supply teachers and support staff.</p>			
3	<p>A user report was requested from Employment Services detailing user name, actual name, last login date and the school at which the users were employed.</p> <p>Internal Audit were informed that this would need to be requested from E Teach. E Teach were contacted and the report was eventually supplied.</p> <p>A sample of 20 active users were selected from the User Report supplied by E Teach and cross referenced to iTrent</p>	<p>Dependent on the outcome of Action 2 Employment Services to liaise with the ICT Information Manager, E Teach.</p> <p>The Certifying Officers list didn't previously link in with E Teach but this system will now be used to perform regular housekeeping to ensure officers who have left the Council or have changed position have their access to E Teach removed. Employment Services will obtain a</p>	Employment Services Manager	31/01/16

No.	Findings and Implications	Agreed Action	Who	When
	<p>to confirm whether these individuals remained employed with Flintshire. The testing found:</p> <ul style="list-style-type: none"> <li>• Nine individuals were still employed by FCC (as per iTrent) but had not accessed the system since 04/03/14.</li> <li>• Eleven employees had left the Authority but their access to E Teach remained active.</li> <li>• Nine of those individuals who had left the Authority had accessed E Teach after the date they had left the Authority. Four of these were Head Teachers, two were Deputy Head Teachers (and as such would have approver/authorisation access), one was a Business Manager/admin and two were Admin/Secretary/Invigilators.</li> </ul> <p>E Teach is web based and can therefore be accessed remotely provided they still have access to the system.</p> <p>It should be noted that access to the system enables the user to view (and in some cases amend) the following fields: name, full address, telephone number, NI.no, DOB, payroll number, ethnic group, registered disabled, qualified date, skills, excluded schools, clearance checks and DBS information fields. At the time of the review there were 2891 supply teacher records on the system.</p> <p>We consider accessing E Teach once an individual leaves the employment as a potential breach in data security. This was discussed with the IT Information Manager who is of the opinion that this is a Data Protection breach as these nine individuals could have potentially viewed all 2,891 profiles.</p> <p>To determine what these individuals had accessed, E Teach were contacted but were unable to provide a report</p>	<p>user report from E Teach monthly to facilitate effective monitoring of leavers, staff transfers.</p> <p>A general data cleansing exercise will be carried out as a matter of urgency.</p> <p>A list of reports will be defined and requested from E-Teach on a periodic basis i.e. list of users, input and approval of payments, users who have not accessed the system for 3months etc or alternatively Employment Services staff should be trained to generate the reports.</p> <p>A user access form is now available on Moodle, the schools infonet.</p> <p>UR 00164</p>		















No.	Findings and Implications	Agreed Action	Who	When
	<p>of what these individuals viewed or how many occasions they had logged on as the user's last log in would have overridden all previous log ins and the system does not possess a sufficient audit trail to show which records and fields were viewed. However, E Teach did confirm that the individuals concerned did not carry out any processing actions i.e. adding a booking or signing off any hours.</p> <p>The user report also identified various users who should not have had access to the system i.e. Gloucester Schools Partnership and Options Kinsale. Additionally a number of users had two user names. These users have since been deleted.</p> <p>It should be noted that officers are not required to complete a user access form before being given access to the system. Due to a lack of housekeeping to remove individuals' access to E Teach once they have left the authority has allowed individuals to gain unauthorised access to the E Teach system.</p>			
4	<p>The audit identified the absence of documented procedures for E-Teach users within schools and Employment Services.</p> <p>Whilst documenting the system it was queried who is responsible for adding and removing users of E-teach. We were informed that E-Teach updated the system as Employment Services staff were not system administrators.</p> <p>E-Teach were contacted for clarification and advised they have been contacted by many Flintshire Schools to add new users/amend and delete users. E-Teach had been doing this as a 'favour' and were of the opinion that "the</p>	<p>E Teach procedure notes to be compiled for both Employment Services and for individual schools to ensure that all officers are aware of their roles and responsibilities in process.</p> <p>UR00155</p>	Employment Services Manager	31/01/16

No.	Findings and Implications	Agreed Action	Who	When
	<p>team at Flintshire were very busy and needed assistance with overflow".</p> <p>This raises questions over the ownership of the system and the data within it and the understanding of contract arrangement in place.</p> <p>During the audit procedures were discussed with Employment Services, E Teach and Schools. At no point were audit provided with the user notes. This also demonstrates the need to ensure that all parties concerned know their roles and responsibilities. Following the debrief meeting we were provided with a copy of E Teach user notes by the Employment Services Manager.</p>			

## Appendix D

### Internal Audit Performance Indicators

Performance Measure	Q1	Q2	Target	RAG Rating
<b>Internal Audit Departmental Targets</b>				
Audits completed within planned time	54%	71.43%	80%	 ↑
Average number of days from end of fieldwork to end of debrief meeting	16.6	20.14	20	 ↓
Average number of days from debrief meeting to the issue of draft report	1.9	4.14	2	 ↓
Days for departments to return draft reports	7.3	20.57	3	 ↓
Average number of days from response to issue of final report	0.9	1.86	2	 ↓
<b>Total days from end of fieldwork to issue of final report</b>	<b>26.7</b>	<b>46.71</b>	<b>27</b>	 ↓
Client questionnaires responses as satisfied	100%	100%	95%	 →
Productive audit days	80%	82%	75%	 ↑
<b>Other Targets</b>				
Return of client satisfaction questionnaires	53.33%	50%	70%	 ↓

Key  Target not achieved     Within 10% of target     Target Achieved

↑ Improving trend    → No change    ↓ Worsening trend

**Wales Chief Auditors Group Benchmarking 2014/15**

Wales Average Scores are from the 19 Authorities who took part in the benchmarking exercise. Not all Authorities answered all the questions

	Wales Average	Flintshire	Position
% of planned audits completed 2014/15	83%	92%	6 <sup>th</sup> =
% of audits completed within planned time	69%	84%	6 <sup>th</sup>
Average number of days from audit closing meeting to issue of draft report	7.6	9.5	9 <sup>th</sup> =
Average number of days from response to draft report to issue of final report	1.8	1.5	7 <sup>th</sup> =
% of client questionnaires returned	59%	57%	7 <sup>th</sup>
% of client questionnaires at least satisfied	98%	100%	1 <sup>st</sup> =

## Investigations

Ref	Date Referred	Investigation Details
<b>1. The following new referrals have been received</b>		
1.1	20.07.2015	A whistleblow has been received concerning alleged issues at a school, the investigation is ongoing.
1.2	17.09.2015	A referral has been received concerning an alleged theft from an extra care facility, the Police have been informed but have decided not to investigate. Control issues highlighted by the incident are being addressed.
<b>2. The following investigations have been reported to previous committees and are still being investigated</b>		
2.1	05.11.2014	Internal audit were informed of the alleged theft of money from a Community Network House which has affected three service users. The Police have been informed. Action is being taken to address control weaknesses highlighted by the alleged theft.
2.2	18.05.2015	A referral was received concerning the use of monies on a grant funded scheme. This investigation is currently ongoing.

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