

AUDIT COMMITTEE
13 JULY 2016

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 13 July 2016

PRESENT:

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

CO-OPTED MEMBER: Mr. Paul Williams

APOLOGY: Councillor Alison Halford

ALSO PRESENT: Councillors Aaron Shotton and Bernie Attridge, Leader and Deputy Leader of the Council

IN ATTENDANCE:

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

Ms. Amanda Hughes of Wales Audit Office

Chief Officer (Organisational Change) - for minute number 10

Corporate Business & Communications Executive Officer - for minute number 12

Chief Officer (Planning & Environment) - for minute number 14

1. APPOINTMENT OF CHAIR

Councillor Ian Dunbar's nomination for Councillor Tim Newhouse was seconded by Councillor Ian Roberts. On being put to the vote, this was carried. No further nominations were received.

RESOLVED:

That Councillor Tim Newhouse be appointed Chair of the Committee.

(From this point, Councillor Newhouse chaired the remainder of the meeting)

2. APPOINTMENT OF VICE-CHAIR

The Chair proposed that Mr. Paul Williams be appointed as Vice-Chair. This was seconded by Councillor Glyn Banks and on being put to the vote, was carried.

RESOLVED:

That Mr. Paul Williams be appointed Vice-Chair of the Committee.

3. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

No declarations of interest were made.

4. MINUTES

The minutes of the meeting held on 16 March 2016 were submitted.

On minute number 60, Public Sector Internal Audit Standards, Councillor Arnold Woolley pointed out a typing error in the final paragraph.

RESOLVED:

That, subject to the amendment, the minutes be approved as a correct record and signed by the Chairman.

5. CONSULTANCY FOLLOW UP

The Internal Audit Manager introduced a report on the implementation of the new system for managing the Council's use of consultants, as an update to the report received in January 2016. Following initial work, the new procedures had been fully implemented across the organisation by April 2016 and issues identified during the early stages had been addressed as set out in the report. The outcome of the review showed that the system was effective in ensuring that the use of consultants and associated spend was being controlled and monitored.

The Chief Executive thanked the Internal Audit Manager for his input along with that of the Finance officers in helping to address the miscoding errors. He also thanked the Corporate Resources Overview & Scrutiny Committee for its interest in the value for money element of consultants. The latest update report to that Committee gave an analysis of consultants used during 2015/16 and demonstrated value for money and impact. Of those consultants, two were continuing work into 2016/17. In making a summary of the findings of the report, the Chief Executive advised that the total expenditure on consultants engaged during 2015/16 (£484,522) was a much lower figure than had previously been (incorrectly) reported and included work on some significant projects. He felt that the new process enabled a greater degree of ownership on the use of consultants, and would share the Overview & Scrutiny report with the Vice-Chair.

The Chief Officer (Governance) explained that the procurement system included a 'trigger' for diverting approval of orders with consultancy codes to the Chief Officers and Chief Executive (under £25K in value) and to the Chief Executive (over £25K in value).

Councillor Ian Dunbar acknowledged the work which had been undertaken to improve the process. In response to a query on the P2P procurement system, the Internal Audit Manager said that a different template was used for engaging consultants. The manual forms currently used to enable the system to be set up in time would later be replaced by electronic forms.

Mr. Williams asked whether the use of coding for suppliers and consultants was being monitored and checked. The Internal Audit Manager said

that use of the two new codes were checked against authorisation forms and that the old codes were now closed. The Chief Officer confirmed that codes were checked by the Procurement team with any inaccuracies highlighted and explained to the relevant officer. Due to the potential for suppliers to be categorised in other groups as well as consultants, manual checking was undertaken. As a further control measure, the Corporate Finance Manager spoke about involvement by the Finance Management Team in monitoring specific codes.

Councillor Arnold Woolley raised concerned that some forms were not being sent to the Procurement team on completion of projects and sought reassurance that employees were aware of their responsibilities, particularly in view of the changing workforce. The Internal Audit Manager advised that the Procurement team would follow this up with the relevant managers after the project end date.

Councillor Glyn Banks suggested that an automatic trigger could be built into the system to highlight the need for officers to return the third stage forms following the project end date. The Internal Audit Manager said that this would be considered when the manual forms were computerised. On the control form, Councillor Banks felt that the reason for any increase in costs should be flagged up following procurement of the consultant (section 2) as opposed to waiting until the completion of the project (section 3). The Chief Executive said that any such changes were expected to be identified during the monitoring stage.

RESOLVED:

That the Committee is assured that expenditure on consultants is being controlled.

6. DRAFT STATEMENT OF ACCOUNTS 2015/16

The Corporate Finance Manager presented the Statement of Accounts 2015/16 (subject to audit) for information only at this stage. The final audited accounts would be submitted to the Committee on 26 September for approval and recommendation to County Council on the same day, prior to the statutory publishing deadline of 30 September.

A presentation was given covering the following areas:

- Purpose and Background
- Action Plan Update
- Governance Group
- Changes to Statement of Accounts for 2015/16
- Links to Budget Monitoring Report
- Headline Figures
- Timeline and Next Steps

The Committee was advised that no comments had been raised by the Clwyd Pension Fund Committee on the draft accounts for the Clwyd Pension Fund.

The Finance Manager - Technical Accountancy referred to the updated action plan for issues raised during the audit of the 2014/15 accounts. Most actions had been completed with significant progress made on the three outstanding. The work of the Accounts Governance Group had helped to oversee and support the preparation of the accounts at a strategic level. The Chief Executive said that this approach was viewed as a good model in helping to raise ownership of the accounts and to fast-track any issues arising.

Councillor Glyn Banks asked whether a different financial arrangement could have been made alongside other councils to exit the Housing Revenue Account subsidy. It was explained that all 11 stock-retaining councils in Wales had signed the voluntary agreement as a group which included a requirement to borrow from the Public Works Loan Board (PWL) at pre agreed rates. This was a complex agreement made in advance of the legislation, with all of the councils paying the same rate. Councillor Banks referred to the loan period ending in three years' time and asked whether an arrangement could be made at the end of the loan period to help cover the debt. It was explained that the Council would need to make total pre-determined interest payments for the first five years of the agreement. After the five year period ended, the best approach would be considered as part of wider Treasury Management activity with repayment and re-financing options being considered. In response to a further question, the Finance Manager provided clarification on the beacon valuation technique used for council housing stock, valued at market value with an adjustment factor to reflect that properties would be owned in perpetuity for rent to social housing tenants.

On borrowing, Councillor Arnold Woolley asked if a 'sinking fund' could be considered and how the Council intended to repay borrowing and interest in the future. He was advised that the Welsh Government anticipated that councils would acquire some debt to finance the provision of long-term capital assets each year, supported through revenue funding within the Settlement to service the cost of debt. Borrowing was only undertaken to fund long-term capital assets. The borrowing cost was spread over the life of the asset so to match the benefits of the use of the asset with the costs in future periods. The central loans and investment account had an annual budget of circa £14m and included amounts set aside to repay debt and interest on debt. This was built into the annual budget setting process and the Medium Term Financial Strategy. The Corporate Finance Manager stated that variances to the budget were set out in detail as part of Revenue Budget Monitoring reports.

Following a query on capital expenditure, the Finance Manager drew attention to the recently updated Prudential Indicator report which demonstrated the prudence, sustainability and affordability of the Council's capital expenditure plans. She offered to discuss separately with Councillor Woolley the links to sustainable borrowing. The Chief Executive spoke about the cautious approach to prudential borrowing and the additional strain which could be created if, as an example, decisions were taken to build new schools funded from borrowing.

When asked by Councillor Haydn Bateman about the interest on the £79m Housing Revenue Account settlement payment, it was explained that this was in the region of £3.3m, though the Council anticipated savings of around £1m a year

as a result of the end of the subsidy system. Concerning the increased costs for rock salt, officers explained that stocks were periodically replenished and stored.

On the movement of earmarked reserves, Councillor Bateman queried the reduction in the amount transferred in for Single Status/Equal Pay in 2015/16. The Finance Manager said that adjustments may have been needed to the different elements involved in implementing the Single Status agreement, however she would provide specific details separately. The Corporate Finance Manager said that there had been a two month overlap to the introduction of the Single Status agreement which had resulted in two months' budget being added in. The Chief Executive gave a reminder that this budget was ringfenced with some contingencies included for any future unforeseen costs. Implementation of the Single Status Agreement was nearing completion and any remaining reserves would be used for people 'exit costs' to support the Portfolio Business Plans. Officers would also provide separate clarification on the £147K transferred out for car parking charges in 2015/16.

Mr. Paul Williams sought assurance that the £899K overspend in Streetscene & Transportation had been dealt with by Overview & Scrutiny. The Chief Executive confirmed that this was the case, and cited the main reason for the variance as non-achievement of long-term efficiencies in-year. Mr. Williams went on to refer to the issues raised during the previous audit, and welcomed the work undertaken by the Accounts Governance Group and Finance team to put in place improvements. The Chief Executive spoke about the importance of the views and influence of the Committee in strengthening the process.

Councillor Ian Roberts raised concerns about school balances in general and asked whether officers were satisfied that there was sufficient capacity in Education to give the necessary support to schools with considerable deficits. The Chief Executive said that the School Budget Forum had discussed this and that advice had been given to schools, however assurance could not be given that all schools had plans in place to recover any deficit. Councillor Roberts said there was real concern about the impact on schools with positive balances. He therefore asked that a confidential general report on school balances for all schools be brought to a future meeting to raise awareness.

When questioned if this was a matter for Overview & Scrutiny, Councillor Roberts felt that the Committee should be made aware that this could become a corporate risk if pressures continued on school budgets. Mr. Williams said that any concerns/recommendations from the Education & Youth Overview & Scrutiny Committee should be fed into the report to help the Audit Committee focus on the process. It was agreed that the report would be scheduled accordingly to include the views of both Overview & Scrutiny and the School Budget Forum.

In response to a question from Councillor Bateman on operating leases, the Finance Manager agreed to provide a separate response on the reason for the reduced amount for vehicles, plant and equipment. The Chief Executive said that current work on reducing the fleet size would form part of this explanation.

RESOLVED:

- (a) That the draft Statement of Accounts 2015/16 (including the Annual Governance Statement), be noted; and
- (b) That Members note the ability to discuss any aspect of the Statement of Accounts with officers or the Wales Audit Office throughout July, August and September prior to the final audited version being brought back to the Committee for recommendation to Council for final approval on 26 September 2016.

7. SUPPLEMENTARY FINANCIAL INFORMATION TO DRAFT STATEMENT OF ACCOUNTS 2015/16

The Finance Manager - Technical Accountancy presented supplementary financial information to accompany the Draft Statement of Accounts 2015/16 in line with the Notice of Motion made in 2013. The information on consultants and non-permanent posts across the Council included theoretical annualised costs if those individuals had been employed for the whole year, as well as the actual costs incurred.

RESOLVED:

That the report be noted.

8. ANNUAL GOVERNANCE STATEMENT

The Internal Audit Manager introduced a report to consider and approve the draft Annual Governance Statement (AGS) for 2015/16 as included in the draft Statement of Accounts. The Corporate Governance Working Group, of which he was Chair, had co-ordinated preparation of the AGS with involvement from Chief Officers, Statutory Officers and Overview & Scrutiny Chairs. Comments put forward by Council Members had also been incorporated in the document.

Mr. Paul Williams questioned the availability of a new 'light touch' appraisal in view of previous concerns expressed on the completion of appraisals. The Chief Executive summarised the findings of a progress report on appraisals due to be considered by the Corporate Resources Overview & Scrutiny Committee. He explained that 'light touch' appraisals applied only to certain larger workgroups of employees with similar, defined roles, where general updates could be shared. Whilst individual appraisals would be disproportionate to these workgroups, those employees could opt for a separate discussion if they wished. This approach had been supported by Trade Union representatives.

RESOLVED:

That the Annual Governance Statement attached to the Statement of Accounts be recommended to Council.

9. **TREASURY MANAGEMENT ANNUAL REPORT 2015/16; TREASURY MANAGEMENT UPDATE QUARTER 1 2016/17**

The Finance Manager - Technical Accountancy introduced the Annual Report on the Council's Treasury Management Policy, Strategy and Practices 2015/16 together with an update on Treasury Management activity in Quarter 1 of 2016/17. If supported, the Annual Report would be submitted to Cabinet and Council for approval in September.

In referring to the prospect of reduced interest rates, Councillor Haydn Bateman asked about the impact on investment counterparties and the prospect of further investment with the Debt Management Office (DMO). The Finance Manager spoke about current predictions and the Council's strategy to reduce investments as the borrowing requirement increased, with the focus of treasury activity shifting to short-term borrowing. Decisions surrounding which counterparties to invest with would include consideration of the DMO as one of the options available as always.

When asked by Councillor Glyn Banks about borrowing for NEW Homes, the Finance Manager said this was likely to be done through the Public Works Loan Board (PWLB) due to the level of flexibility offered, with the Council on-lending to the company in the same way at a margin. If there was a need to re-finance the loan, this could be done with PWLB at a cost but with some flexibility. In response to a question on the investment portfolio, the Finance Manager spoke about the benefits of using small local authorities due to their higher credit quality.

Following concerns from Councillor Arnold Woolley about the expectation for a need to borrow for capital purposes from 2016/17 onwards, the Finance Manager said that borrowing requirements would depend on cash reserves held. She said that projections had been set in line with the capital expenditure plans, subject to monitoring throughout the year, and that figures could be shared.

RESOLVED:

- (a) That the draft Treasury Management Annual Report 2015/16 be noted; and
- (b) That the Treasury Management 2016/17 Quarter 1 update be noted.

10. **ASSET DISPOSAL AND CAPITAL RECEIPTS GENERATED 2015/16**

The Chief Officer (Organisational Change) presented the report on total asset disposals in 2015/16. He explained that the majority of the capital receipts generated during the period were from agricultural assets due to a range of reasons. In summarising the report, he said that the information had been provided on a ward by ward basis and that this linked to the Council's combined Capital Strategy and Asset Plan.

Councillor Glyn Banks asked whether overages were included as a future safeguard. The Chief Officer said that this was the case where possible and appropriate, together with negotiated restrictive covenants to protect the

Council's interests. When questioned about the risk management section of the report, it was pointed out that the information in the report was retrospective.

RESOLVED:

That the report be noted.

11. CERTIFICATION OF GRANT CLAIMS AND RETURNS 2014/15

The Corporate Finance Manager introduced the grant claim certification from Wales Audit Office (WAO) for the year ending 31 March 2015. To address the findings of the report, the Finance team had developed an action plan. This included the continuation of work on the grant completion checklist to incorporate service manager authorisation, which was an area outside the control of the Finance team. The £0.128m net adjustment to claims mainly related to a one-off issue which had been resolved; this was a small proportion of the overall grants total and resulted in no financial loss to the Council. There had been improvement to grant claims year on year, with some work still to do alongside WAO colleagues.

Ms. Amanda Hughes recalled the concerns raised by the Committee on the report of the previous year which had led to training sessions with those involved in grant claims. Out of the 16 grant claims certified, seven were unqualified and nine were subject to either qualification or amendment or both. Whilst acknowledging that some improvements had been made, Ms. Hughes remained disappointed, particularly as the number of claims was reducing year on year. She drew attention to the recommendations listed within the report to address these concerns.

Mr. Paul Williams referred to the checklist and workforce training which had taken place, stating his disappointment that issues of non-compliance with the Contract Procedure Rules (CPRs) remained ongoing. The Chief Executive shared these frustrations but gave assurances that work was underway to identify the main issues to target specific training and reinforce controls. Risks were being highlighted with senior managers and Chief Officers, and an interim report indicating levels of confidence on progress with actions would be received in the Autumn.

When asked by Councillor Glyn Banks about follow-up action from WAO, Ms. Hughes said it should be recognised that responsibility for the errors was spread across the Council. She said that compliance with CPRs was also an issue in other Authorities and welcomed the approach to target specific areas with individual training.

The Chief Officer (Governance) advised that the Joint Procurement Unit was working to simplify the new set of CPRs and that training would be given to raise awareness. Discussions would take place on refreshing the approvals process, involving a range of key officers and Members including the Chair and Vice-Chair of the Committee. The formal approvals process for CPRs would be shared with the Committee in September, prior to final approval at Council in October.

Following concern by Mr. Williams that the current process was not being followed, the Chief Executive said that an update on progress with compliance would be given at the September meeting, with periodic updates shared with WAO colleagues to give reassurance.

Councillor Arnold Woolley commented on the need to view comparative information on grant claim outcomes of other Authorities, to give a greater understanding of the situation. Ms. Hughes agreed to follow up this request and provide a response, stating it was likely that Flintshire's statistics were amongst the lowest.

Councillor Woolley suggested that some of the issues may be due to lack of capacity or adequate support to enable employees to carry out their tasks. The Chief Executive said that this was not a valid reason for non-compliance of processes and that the refresher work with managers on CPRs would help to address the problem.

RESOLVED:

That the content of the Grant Claim Certification for 2014/15 be noted.

12. RISK MANAGEMENT UPDATE

The Corporate Business & Communications Executive Officer presented an update report on the strategic risks contained within the Council's Improvement Plan at the end of 2015/16. She gave a reminder of the Committee's role in seeking assurance that risks were being successfully managed. An improved position was reported on risk status with 30 being assessed as moderate and 12 as minor/insignificant. There were three areas of major (red) risks, although it was expected that the red risk on Alternative Delivery Models (ADMs) would reduce during the year. Over the year of the Improvement Plan, four major risks had reduced whilst one on the transfer of Health funding had increased slightly. The risk register summarised the status of all 45 risks in the eight Priorities whilst more detail on management controls and supporting comments were also shared.

Councillor Arnold Woolley sought clarity on the 'yellow' risk rating and was informed that changes to the matrix as part of the Risk Management Strategy showed more clearly how risks were changing.

Following a question from the Chairman, the Chief Executive provided clarification on the lead officer arrangements for Human Resources and Finance in the absence of the Chief Officer through long-term illness.

RESOLVED:

That the status of the 2015/16 end of year summary of the strategic risks of the Improvement priorities of the Council be noted; endorsing the successful management of the risks.

13. INTERNAL AUDIT ANNUAL REPORT

The Internal Audit Manager introduced the report on the outcome of all audit work carried out during 2015/16. He summarised the key points of the report and confirmed the audit opinion that an adequate and effective framework of governance, risk management and control was in place in Flintshire.

RESOLVED:

That the report and the annual audit opinion be noted.

14. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented the update report on progress of the Internal Audit department.

On the finalised reports, he explained that the 'red' review was a corporate review on how Section 106 monies were spent, with the current value around £4m. It was stressed that this had been a corporate review due to the community benefits and that improvements had already been made since the review. As recommended by Internal Audit, a cross-directorate working group had been set up to address the issues identified.

As Chair of the working group, the Chief Officer (Planning & Environment) was in attendance to give further clarification. He explained that the Planning section was able to procure S106 monies but was unable to spend them. The working group would seek to release this capital and with the support of the Planning Strategy Group and Cabinet, had reviewed the Supplementary Planning Guidance to adopt a more flexible approach to spend.

The Chief Officer was able to report progress to Councillor Ian Dunbar on a matter relating to S106 spend in his ward.

On Appendix E, the Internal Audit Manager referred to the results of the Control and Risk Self-Assessment questionnaire completed by schools, explaining that the responses reflected the way in which the questions were phrased.

An update on Action Tracking indicated that out of a total of 106, only two remained overdue on Contract Procedure Rules (Governance portfolio) and Direct Payments (Social Services). In line with the request previously made, details were given on the management of those risks. A late response received on Direct Payments reported that some progress had been made although this was limited due to the volume of payments.

On Direct Payments, Mr. Paul Williams questioned whether there were sufficient resources to address the issue and any risk. The Internal Audit Manager gave assurance that the question of resources would be part of the full response to the Action Tracking.

On investigations, Mr. Williams pointed out that cases 3.1 and 3.3 had not been followed up by the Police and asked if this was due to the control

weaknesses in those respective areas, as referred to in the report. The Internal Audit Manager felt that this could be due to the amounts of money involved.

RESOLVED:

That the report be accepted.

15. VARIATION IN ORDER OF BUSINESS

The Chair indicated that there would be a slight change in the order of business to bring forward Agenda Item 19 on Car User Allowances. The remainder of the items would be considered in the order shown on the agenda.

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

That the press and public be excluded from the meeting as the following item was considered to be exempt by virtue of paragraph 15 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

17. CAR USER ALLOWANCES

As background to the item, the Internal Audit Manager said that car user allowances had formed part of an Internal Audit report on additional payments and had subsequently become a topic of wider interest.

The Chief Executive provided a verbal update on the car user allowance (CUA) scheme as an exempt item, due to negotiations ongoing with Trade Unions. He described the criteria for the scheme and said that the introduction of changes with stricter controls was a matter currently under discussion. If agreement was reached, there was potential to exceed the savings target. At the stage of agreement, a workforce communication would be issued with advance details shared with the Committee. The suggestion made by Councillor Glyn Banks on retrospective claims would be taken into consideration in conjunction with the necessary specialist advice.

RESOLVED:

That the update be noted.

18. WALES AUDIT OFFICE - REGULATORY PROGRAMME - PERFORMANCE WORK 2016/17

The Chief Executive introduced the proposed Regulatory Programme of performance work by the Wales Audit Office (WAO) for 2016/17, following receipt of the programme of work for Finance and the Clwyd Pension Fund at the previous meeting. The letter appended to the report set out the programme and fees for the performance work. The Certificate of Compliance was also presented for the publication of the Council's 2016/17 Improvement Plan.

The Chief Executive advised the Committee that the recent performance assessment had resulted in no new proposals for improvement.

RESOLVED:

- (a) That the Regulatory Programme of Performance Work 2016/17 prepared by the Wales Audit Office be noted; and
- (b) That the Certificate of Compliance from the Wales Audit Office for the 2016/17 Improvement Plan publication be received.

19. ACTION TRACKING

The Internal Audit Manager presented the progress update report on actions arising from points raised at previous meetings of the Committee.

RESOLVED:

That the report be accepted.

20. FORWARD WORK PROGRAMME

The Internal Audit Manager presented the report to consider the Forward Work Programme for the next year. The suggested items on School Balances and interim progress on Grant Claims would be scheduled along with an update on Mobile Phones requested by the Chairman. An update on Car User Allowances would be shared for information only.

RESOLVED:

- (a) That the Forward Work Programme be accepted with amendments; and
- (b) 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.

21. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

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

(The meeting started at 10.00 am and ended at 12.45 pm)

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Chairman