

AUDIT COMMITTEE
26 SEPTEMBER 2016

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Room, County Hall, Mold on Monday, 26 September 2016

PRESENT: Councillor Tim Newhouse (Chairman)

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

CO-OPTED MEMBER: Mr Paul Williams

ALSO PRESENT: Councillors: Aaron Shotton, Bernie Attridge and Billy Mullin

IN ATTENDANCE:

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

Mr. John Herniman, Mr. Matt Edwards and Mr. Simon Monkhouse of Wales Audit Office (for minute number 24)

Mr. Paul Goodlad of Wales Audit Office (for minute number 25)

Mr. Tom Booty, Programme Manager, Facilities, Assets & Housing, Denbighshire County Council (for minute number 26)

Senior Manager, Safeguarding & Commissioning and Business Manager (for minute number 27)

22. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

Councillor Glyn Banks declared a personal interest on Agenda Item 6 'Contract Procedure Rules' as he was a contractor on the Council's approved list.

23. MINUTES

The minutes of the meeting held on 13 July 2016 were submitted.

Matters Arising

Minute number 5: Consultancy Follow up - the Chief Executive gave an update on the effectiveness of the new system, reporting that only one new consultant at the highest threshold had been appointed since the last report. The Corporate Resources Overview & Scrutiny Committee was receiving regular updates to give assurance on value for money.

Minute number 6: Draft Statement of Accounts 2015/16 - the Finance Manager - Technical Accountancy was thanked by Councillors Haydn Bateman and Arnold Woolley for her explanations on the accounts.

Minute number 17: Car User Allowances - the Chief Executive said that all Members had been advised by email of the outcome of the negotiations with Trade Unions with the amended scheme due to become effective from 1 October.

RESOLVED:

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

24. STATEMENT OF ACCOUNTS 2015/16

The Corporate Finance Manager presented the final version of the Statement of Accounts for 2015/16 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.

Changes agreed with the WAO during the course of the audit had been incorporated into the accounts and actions taken by officers. A response to the queries raised on the draft accounts at the July meeting had been forwarded to all Members, along with an offer to discuss any further queries directly with officers. The WAO had commended the Council's positive and proactive response to the issues raised on the 2014/15 audit and noted no reoccurrence of issues raised in previous years. The Corporate Finance Manager thanked WAO colleagues for their work on the audit and summarised three new issues highlighted in the report.

Mr. John Herniman of WAO welcomed the Council's approach in setting up the Accounts Governance Group to adopt a corporate oversight for the production of the accounts. He said that significant progress had been made, with a clean audit opinion given on the accounts. On the three new issues, the mathematical errors identified on the housing stock valuation would have no operational impact and no further action was required. It was also noted that work would need to progress on recognising provision for potential liability on former waste disposal sites and to pursue up-to-date membership information for the Clwyd Pension Fund.

The Chief Executive thanked WAO colleagues, including Amanda Hughes who was not present. He spoke about the continuation of the Accounts Governance Group which he had formed to support the Finance team, with involvement from WAO and progress reporting to the Chair and Vice-Chair of the Committee.

In response to questions from Councillor Ian Dunbar on the new issues, the Chief Executive said that provisional funding had been set aside for potential liabilities on former landfill sites and would be subject to further consideration by Cabinet and Overview & Scrutiny. The housing re-valuation matter reinforced the need for a standard national model to be developed by the Welsh Government. The Finance Manager explained the need to revalue council housing stock at least every five years and that this accounting entry showed the existing use value to the Council at the balance sheet date being 31 March 2016. She explained the Council's responsibilities in carrying out investigations on former waste disposal sites, with work starting on five former sites and another two nearing completion.

Councillor Arnold Woolley asked whether WG guidance on consistency of regional adjustment factors to value council stock could be pursued through the Welsh Local Government Association. The Corporate Finance Manager said that this was an issue across all Welsh councils and that representations were being made through regional groups.

Following a query by Councillor Haydn Bateman, the Finance Manager agreed to follow-up a request for clarification on what was included within the figures for 'specialist services' on the Housing Revenue Account (HRA) Income and Expenditure Statement. Details would also be given on the changes between the draft and final versions, which was likely to be a small amount of depreciation on leased assets such as aereals.

On the Clwyd Pension Fund, Councillor Glyn Banks asked about plans to manage or reduce the deficit. The Chief Executive said that the majority of Local Government pension funds across the UK were in a deficit position and that a long-term strategy to reach a fully funded position had been developed. Progress over the past few years had resulted in the Fund currently being 75% funded.

Mr. Matt Edwards thanked the Clwyd Pension Fund team for their co-operation in enabling WAO to conclude the audit work resulting in a positive, unqualified opinion on the accounts. He confirmed that there were no reported misstatements and that details of corrected misstatements on the draft accounts were appended to the report. The actions set out by management to address WAO recommendations on the Pension Fund accounts would be followed up as part of the audit for next year and made no material difference to the accounts.

When asked by Councillor Alison Halford about any concerns arising from the accuracy of the pension administration membership records, Mr. Edwards clarified that they did not impact on the Pension Fund accounts and the actuary had confirmed that the inaccuracies did give rise to material misstatement in the financial statements of the admitted bodies. Councillor Halford suggested that the Audit Committee could be involved in discussions with the Clwyd Pension Fund Committee when the issue was under consideration. The Chief Executive advised that Councillor Haydn Bateman was a member of both committees and that a specific item had been scheduled for that meeting at which the Corporate Finance Manager and the Pensions Finance Manager would provide an update. He went on to say that the Clwyd Pension Fund accounts formed part of the consolidated accounts, and that the Clwyd Pension Fund Committee was amongst the key stakeholders with governance responsibility on the accounts.

On contingent liabilities, Councillor Halford queried whether there was any significant financial risk arising from employment tribunals. The Finance Manager would check to confirm that this was a new liability within the accounts that did not apply in the previous year. At the end of the 2015/16, the risk had been noted as a contingent liability following an assessment and consultation with the Interim HR Manager on the basis that current cases leading to tribunals were not considered to be material. Councillor Halford requested details of the amount paid out by the Council to resolve employment tribunal claims.

The Chief Executive said that an overview of anonymised outcomes could be shared with the Committee. Following further comments from Councillor Halford, the Chief Officer (Governance) spoke about the process for confidentiality agreements. The Finance Manager explained that such costs would be summarised on the Income and Expenditure Statement within the accounts. The Chief Executive advised that a breakdown of the number, total amount paid out and outcomes of employment tribunal claims for 2015/16 would be shared with the Committee within two weeks. He explained that it would be an inappropriate practice to report individual cases to the Committee and that the Council had a good record on tribunal cases. It was also explained that a cap was imposed on employment claims and that any significant amount for claims would be included as part of Revenue Budget Monitoring reporting to the Corporate Resources Overview & Scrutiny Committee.

When asked to sum up, the Chairman stated that the Committee's focus was on procedural issues arising from claims against the Council.

The Chief Executive said that such claims would always present a risk especially to larger-scale employers. He said that significant work had been done to mitigate risks over the years, including an ongoing review of the quality of disciplinary procedures with the Trade Unions.

RESOLVED:

- (a) That the final version of the Statement of Accounts 2015/16 be recommended to County Council;
- (b) That the Wales Audit Office reports on the Audit of the Financial Statements for Flintshire County Council and Clwyd Pension Fund be received; and
- (c) That the Letters of Representation for Flintshire County Council and the Clwyd Pension Fund be recommended to County Council.

25. ANNUAL IMPROVEMENT REPORT OF THE AUDITOR GENERAL FOR WALES

Mr. Paul Goodlad of Wales Audit Office (WAO) introduced the Annual Improvement Report which summarised audit work since March 2015. The report concluded that 'despite increasing financial pressures, the Council has continued to improve performance within its priority areas and to strengthen its corporate arrangements'. Mr. Goodlad confirmed there were no specific areas of concern or new proposals for improvement and noted that the sections on education and social services incorporated in the report had been provided by the respective external bodies. He reported that good progress had been made on actions being taken to address proposals for improvement from the 2014 Corporate Assessment Report.

The Chief Executive gave an overview of progress on the action plan where each action was being led by either himself or the Chief Officer (Governance).

On the P5 proposal for improvement, Councillor Ian Dunbar welcomed the early budget consultations with Members which provided an insight into the financial pressures faced by the Council.

RESOLVED:

- (a) That the Annual Improvement Report be accepted; and
- (b) That the updated response to the proposals for improvement from the 2015 report be noted.

26. CONTRACT PROCEDURE RULES

The Chief Officer (Governance) presented the draft revised Contract Procedure Rules (CPRs) which had been updated to reflect various legislative changes and the move to an electronic procurement system. The current CPRs had been adopted in 2013 following delays in the agreement of a national model and the proposed new set was consistent with those used at Denbighshire County Council with whom Flintshire shared the procurement service. A number of improvements had been made to the revised CPRs including the introduction of a commissioning form and changes to authorisation thresholds which allowed an increased level of oversight for Members. A programme of sessions for Members and officers was planned to raise awareness of the new rules, including more targeted user training.

The Committee was introduced to Mr. Tom Booty, the Programme Manager for Facilities, Assets & Housing at Denbighshire County Council. He explained that the development of the revised CPRs had been informed by assessing procedures and issues raised by Internal Audit. Feedback from Denbighshire, where the CPRs had been in use for several months, showed that the training programme and increased focus on procurement planning had been well received.

Councillor Ian Roberts asked whether any weight was given to the previous performance/conduct of contractors within the new rules. Mr. Booty explained that the electronic system incorporated a performance review element for completion at the end of each contract which would help to inform future tendering exercises. Councillor Roberts went on to question the current process in Flintshire and stressed the importance of safeguards to ensure that contractors with a poor record of service delivery were not given an opportunity to tender for further work.

The Chief Officer said that whilst contract award criteria was 60/40 for quality and cost, consideration should also be given to previous under-performance which had not been rectified. The Chief Executive said that officers were expected to apply rigour and judgement when awarding contracts under the rule prevailing at that time.

Councillor Glyn Banks commented on the Council's select list of contractors and was advised that this was no longer required under the new CPRs as contracts were awarded on an individual basis.

Councillor Roberts raised concerns about the continuing performance levels of a particular contractor and stressed the importance of safeguards within the CPRs to flag up this issue. Councillor Alison Halford felt that the report gave no assurance about the issue raised by Councillor Roberts. The Chief Officer referred to his earlier response and that given by Mr. Booty on collating performance data, asking that any concerns about specific contractors be raised with him outside the meeting.

In response to concerns raised by Councillor Arnold Woolley, Mr. Booty explained that the regulations did not permit a contractor to be excluded from tendering solely on the basis that they already undertook a significant proportion of work for the Council. Where this had occurred in Denbighshire, the practice was for the Economic Development team to discuss diversification options with the supplier. The Chief Officer added that a section on risk planning had been included in the CPRs which helped to give assurance on safeguards in respect of engaging start-up businesses. He went on to clarify that the CPRs did not apply to agency contracts as a robust recruitment process was already in place.

Mr. Paul Williams felt that the CPRs were too complex and difficult to follow, suggesting that the inclusion of a flowchart would help to clarify the process. He sought assurance on safeguards to ensure workforce compliance with the rules, as this had been a previous issue, and asked whether aggregate authorisation limits had been set for service managers. In response to further points raised, it was reported that audits on the new CPRs were scheduled in both Denbighshire and Flintshire and that Internal Audit officers from both councils had been involved in the reviewing process of developing the CPRs. Mr. Williams felt unable to support the recommendations at this stage and suggested that implementation be delayed until the audit findings were known to give assurance on the safeguards.

The Chief Executive reiterated the need to refresh and modernise the current CPRs which were already in use, and that appropriate training and support would be provided. He said that a report on training and operations could be provided to the Committee to give assurance about how the new rules were working in practice following the transition.

The Chief Officer spoke about the role of the Procurement Team in having an oversight of the process and reporting directly to him. Discussions on the timing of the training programme had resulted in agreement on 1 November 2016 as the current rules were outdated. Explanation was also given on plans to adopt a category management approach similar to Denbighshire.

Mr. Booty said that guidance used in Denbighshire for both suppliers and officers could be shared with the Committee. Feedback had shown the document was easier to read and highlighted the benefits of moving to electronic procurement. Flowcharts used in Denbighshire could also be shared whilst noting that there were complexities in the process.

Councillor Halford welcomed the learning from Denbighshire's experience and understood the need to refresh the rules, but felt that not enough consideration was being given to the quality of contractors' work. Councillor Roberts agreed and said that the issue extended beyond one contractor, for

example on a number of contracts for the Flint redevelopment. He raised concerns about reputational risk to the Council and felt that the quality of workmanship should be strongly represented in the CPRs to reinforce the message to contractors.

Councillor Woolley agreed that the rules should reflect the responsibilities of contractors to rectify any faults identified. Mr. Booty said that the CPRs set out clear accountability on the management of contractors' performance and the expectation for contract managers to address any issues of underperformance.

The Chief Executive pointed out that the new CPRs would not in themselves remove the concerns raised. He proposed a report on the transition to the new rules and the success of training and supervision of those making procurement decisions. He said that the new rules should be implemented as they raised expectations on managing contracts and achieving community benefits.

The Chief Officer drew attention to the section on contract performance within the CPRs which gave clear guidance on managing contracts and said that specific focus could be given to this during the training.

On contractor performance, Councillor Halford asked about opportunities for resident feedback, adding that some may not feel comfortable reporting issues. The Chief Executive referred to the robust system for housing tenants where both positive and less positive feedback was received, which helped to identify trends.

Councillor Halford referred to section 1.1.9 of the CPRs on the role of Council Members on accountability for the Council's actions and said that a better system was needed with provision to feedback satisfaction levels to contractors. Councillor Roberts felt that individual officer capacity was an issue.

Councillor Woolley suggested an additional resolution that the Committee confirms to Council that the proposed CPRs would give satisfactory assurance and controls in the provision of awarding contracts only. The Chief Executive again made his suggestion for a report on the transition to the new rules and performance of contracts against the rules in practice. The Committee agreed that the implementation date should remain as 1 November 2016 to enable a report to be submitted in January detailing progress on implementation and training. On being put to the vote, this was carried.

As suggested by Councillor Halford, an update on CPRs would be scheduled twice yearly on the Committee's Forward Work Programme.

RESOLVED:

- (a) That the Audit Committee confirms to Council that the proposed CPRs will give satisfactory assurance and controls in the provision of awarding contracts only;
- (b) That the Committee recommends Council adopts the proposed new rules;

- (c) That the Audit Committee receives an early report on the successful transition to the new Contract Procedure Rules and receives reports on the performance of contracts against the rules in practice; and
- (d) That the implementation date will remain as 1 November 2016 to enable a period of implementation prior to January at which an update report will be received.

27. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented the update report on progress of the Internal Audit department. He referred to information on the finalised report on the red review of provider overpayments to care homes and welcomed the prompt actions including the establishment of a Task & Finish Group.

The Senior Manager (Safeguarding & Commissioning) and Business Manager were in attendance to report on progress with the action plan. They explained that on identifying the overpayment, the team had engaged with Internal Audit to look at processes, most of which had already been recognised by the service area. An update was given on positive actions to strengthen links and address the weaknesses which had led to the overpayment.

Councillor Alison Halford thanked the team and Internal Audit for their work. She raised concerns that the PARIS system had not identified the overpayment and suggested that the Chief Officer (Social Services) be invited to a future meeting to give an overview of the safeguards and provide assurance on the effectiveness of systems.

The Senior Manager advised that the provider had prepared a repayment schedule and that the full amount was being sought through debtor negotiations.

The Chief Executive agreed that the incident was regrettable and that it was reasonable to ask the Chief Officer (Social Services) to address the concerns. He spoke about the responsibilities on service providers as well as that of the Council and felt that this should be highlighted with other care providers. He also referred to the complexities of the PARIS system.

In response to questions from Mr. Paul Williams, explanation was given on the invoicing process where checks had not been properly carried out and it was confirmed that all records had been checked to verify that this was a standalone issue. Actions included a review of procedures across Social Services to learn lessons and make improvements to prevent any reoccurrence. In respect of the repayment schedule, this was a reasonable request but the Council was seeking to recover the full cost and an informal communication could be shared with the Committee on the conclusion of these negotiations. It was also explained that the care provider had been made aware of the overpayment once it had been brought to their attention.

The Chief Executive suggested that the Chief Officer could be invited to the next meeting in January to report on the progress of implementing the recommendations.

On the question of further work by Internal Audit, there were no overdue actions and no new investigations to report.

The Internal Audit Manager reported on changes within the section, as set out in the report, which had led to revisions to the Audit Plan. The Principal Auditor confirmed that the reduced number of days within the Plan remained sufficient to give the annual audit opinion and that the changes had been determined by assessing various factors and consultation with relevant senior officers.

Following a query by Councillor Halford on the risk ratings allocated to audits within the Plan, it was clarified that these did not reflect any findings or pre-judgement but were determined by the model used in the planning process to prioritise work.

Officers agreed to the request made by Mr. Paul Williams that any actions with a revised due date six months beyond the original date be flagged up with the Committee to monitor slippage.

RESOLVED:

That the report be accepted.

28. INTERNAL AUDIT CHARTER

The Principal Auditor presented a report to consider the outcome of a review of the charter to meet legal and regulatory requirements including recent changes to the Public Sector Internal Audit Standards (PSIAS). Members were advised of the key changes relating to the Mission Statement and Code of Ethics.

RESOLVED:

That the updated Internal Audit Charter be approved.

29. ACTION TRACKING

The Internal Audit Manager presented the progress update report on actions arising from points raised at previous meetings of the Committee. Whilst the vast majority had been implemented, the remainder would be brought to future meetings. The comparative statistics on grant claims, provided by Wales Audit Office, would be presented to the next meeting.

RESOLVED:

That the report be accepted.

30. FORWARD WORK PROGRAMME

The current Forward Work Programme was presented for consideration. The suggested items on the Contract Procedure Rules update and Chief Officer report on Provider Overpayments would be scheduled for the January meeting.

As this was the last meeting before the departure of the Internal Audit Manager, the Chairman took the opportunity to thank him for his excellent work and offer best wishes on behalf of the Committee. Good wishes were also extended to the Principal Auditor who was to undertake the role on an interim basis.

The Chief Officer (Governance) said that information on the interim arrangements had been shared with Members and that work was underway to explore permanent options for the post including the potential for post-sharing with other Authorities. A clear position statement would be given to the Committee at the meeting in January. The Internal Audit Manager thanked the Committee for its support to him personally and to the Internal Audit section.

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.

31. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There was one member of the press in attendance.

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

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Chairman