

**AUDIT COMMITTEE**  
**11 JULY 2018**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 11 July 2018

**PRESENT: Councillor Helen Brown (Chair)**

Councillors: Geoff Collett, Chris Dolphin, Andy Dunbobbin, Andrew Holgate, Paul Johnson and Arnold Woolley

Co-opted member: Sally Ellis

**ALSO PRESENT:** Councillors Patrick Heesom and Billy Mullin attended as observers

**IN ATTENDANCE:**

Chief Executive; Chief Officer (Governance); Internal Audit Manager; Corporate Finance Manager; Interim Finance Manager - Technical Accountancy; Technical Accountant; and Democratic Services Officer

Matthew Edwards and Richard Harries of Wales Audit Office

Peter Worth and Clwyd Pension Fund Manager - for minute number 17

**13. DECLARATIONS OF INTEREST**

The Chair, Councillor Andrew Holgate, Councillor Paul Johnson and Sally Ellis declared a personal interest on Agenda Item 6 as they were members of the Clwyd Pension Fund.

**14. MINUTES**

The minutes of the meeting held on 6 June 2018 were submitted.

**RESOLVED:**

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

**15. DRAFT STATEMENT OF ACCOUNTS 2017/18**

The Corporate Finance Manager presented the Draft Statement of Accounts 2017/18 (subject to audit) for information only at this stage. These comprised the Group accounts, including its wholly owned subsidiaries, and the Annual Governance Statement which had been considered at the previous meeting. The final audited accounts would be received on 12 September for approval and recommendation to County Council on the same day, ready for publication by 15 September which was in advance of the statutory deadline to prepare for earlier timescales from 2018/19.

The Corporate Finance Manager and Interim Finance Manager - Technical Accountancy gave a joint presentation covering the following:

- Purpose and Background of the Accounts
- Contents and Overview
- Responsibility for the Accounts
- Links to Budget Monitoring
- Headline Figures - Council Fund, Reserves at Year End, Capital and Housing Revenue Account (HRA)
- Financial Performance Indicators
- Changes to the Accounts for 2017/18
- Principal Statements
- Accounts Governance Group
- Progress in addressing prior year issues
- Timeline and Next Steps
- Impact of Earlier Deadlines on Materiality

During the presentation, officers gave a reminder that the Statement was a corporate document and that the Clwyd Pension Fund accounts were now considered under a separate agenda item following changes to the regulations. The earlier statutory publishing deadlines from 2018/19 would require a considered view on materiality and may require use of some estimated data whilst ensuring that readers were not misled. All Members were able to raise queries on the accounts with officers during the Summer prior to submission of the final audited version.

Sally Ellis asked about the implications of the increase in short-term debtors. The Interim Finance Manager explained that this was mainly due to financing for North East Wales (NEW) Homes and that no increase in impairment provision was required. The classification of NEW Homes as a short-term debtor would change as the company evolved. Information was also shared on the approach to managing impairment provision through the Revenue Budget Monitoring process.

On the accounting treatment for waste disposal sites, officers explained that provision had been made for complex work being undertaken at Standard and Brookhill landfill sites over a period of time. A level of contingent liability was retained to deal with any issues, including any arising from a wider programme of work to identify risks across all landfill sites. The Chief Executive spoke about the involvement of the Accounts Governance Group on the establishment of a robust programme to manage the risks and needs of redundant waste sites.

Matthew Edwards of Wales Audit Office gave assurance of regular discussions with relevant officers on progress with landfill sites. Such issues formed part of audit work on the accounts including the classification of sites and potential liabilities.

When asked by Sally Ellis about the main considerations of the Accounts Governance Group, the Chief Executive said that the Group had satisfied itself that issues identified in previous years had been resolved. The Interim Finance Manager spoke about the value of the Group in engaging with senior officers to identify potential future contingent liabilities. The Corporate Finance Manager referred to the Group providing assurance and on issues within the accounts prior to sign-off.

**RESOLVED:**

- (a) That the draft Statement of Accounts 2017/18 (which includes the Annual Governance Statement approved by the Committee at its June 2018 meeting) 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 12 September 2018.

**16. SUPPLEMENTARY FINANCIAL INFORMATION TO DRAFT STATEMENT OF ACCOUNTS 2017/18**

The Corporate Finance Manager presented the supplementary financial information to accompany the draft Statement of Accounts 2017/18 as requested by the Notice of Motion approved by the Council in 2013.

The information on posts covered by interim or temporary appointments reflected amounts paid to organisations for such arrangements and not the salaries of the individuals concerned. The costs for 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.

The Chief Executive asked if the Committee wished to continue to receive the information. Members indicated that they did.

**RESOLVED:**

That the report be noted.

**17. DRAFT CLWYD PENSION FUND STATEMENT OF ACCOUNTS 2017/18**

The Corporate Finance Manager introduced the report on the draft Clwyd Pension Fund Statement of Accounts 2017/18 which, following a change in regulations, were now separated from the Council's Statement of Accounts. As previously agreed by the Committee and the Council, approval of the Pension Fund accounts had been delegated to the Clwyd Pension Fund Committee as the more appropriate body.

Peter Worth, who had prepared the accounts, confirmed that the draft accounts had been presented to the Clwyd Pension Fund Committee in June and that the presentation slides he had used to explain the accounts to that Committee could be shared with Audit Committee Members if they so wished. He provided information on his professional background and set out the key changes to both streamline the accounts and include additional disclosures to ensure compliance with the financial reporting framework. The salient points were that:

1. Investment management fees had increased by £6m reflecting:
  - An increase in the fund-based fees to the Fund's core managers mirroring the increase in the overall Fund value;
  - additional fees for new investments in private equity and infrastructure;
  - additional costs being reported by fund managers reflecting regulatory changes resulting in greater transparency on fee charges.

It was noted that the fees were at the higher end of the range. This reflected the investment portfolio of the Fund and had been reported to the Clwyd Pension Fund Committee.

2. Net investment return had declined from £318m in 2015/16 to £87m in 2016/17. This reflected a downturn in global equity markets.
3. The estimated funding position at the end of March 2018 - based on IAS19 - indicated a significant improvement from 2016.

Sally Ellis referred to the explanation on the increase in management expenses and asked how this was being monitored. Peter Worth said that this was due to the number of small tranches of investments made throughout the year and that a balanced view was needed to consider the links between cost of management fees for those investments, the rates of return and risk management. He went on to refer to work with the Local Government Association to extend reporting of those links as part of the annual report.

The Chief Executive advised that the Clwyd Pension Fund Committee had a strong understanding of the issue and provided robust challenge to satisfy itself on management fees and value for money. He said that the Fund differed to others in respect of its strategy of balancing risk and performing well. His suggestion that the Audit Committee could receive a future report and presentation to give assurance on governance arrangements of the Fund, was welcomed by Sally Ellis.

**RESOLVED:**

That the report be noted.

**18. TREASURY MANAGEMENT ANNUAL REPORT 2017/18 AND TREASURY MANAGEMENT QUARTER 1 UPDATE 2018/19**

The Interim Finance Manager - Technical Accountancy presented the Annual Report on the Council's Treasury Management Policy, Strategy and Practices 2017/18 for review and recommendation to Cabinet.

During a summary of the key points of the Annual Report, the most significant issue of note was the increase in Bank Rate in November 2017. On section 3, Members received a revised sheet showing the updated position on borrowing activity in 2017/18 which reflected the approach for continued short-term borrowing. Officers would be working with the Treasury Management advisors over the Summer to assess options for potential long-term loans. The Committee's attention was drawn to a single breach in the Council's policy where

human error had led to an investment being made above the prescribed limit. In considering the level of risk, early redemption charge and damage to reputational risk, it had been resolved not to call back the deal and the investment had been left for ten days with no financial loss to the Council.

As part of an update on Treasury Management activity in the first quarter of 2018/19, an amended long-term borrowing analysis (Appendix 4) was circulated, with the removal of two loans paid in April 2018.

In advance of considering the Treasury Management Strategy for the following year, a training session by the Treasury Management Advisors would be scheduled for all Members in January 2019.

Councillor Johnson sought information on FMS, the loan provider for Lenders Option Borrowers Option (LOBOs) and whether the loans were held in the UK or Europe, on which officers agreed to provide a separate response. In response to comments, the Interim Finance Manager spoke about the approach to rescheduling debt across the portfolio in consultation with the Treasury Management advisors. On the implications of Brexit, officers would engage with the advisors to establish the best strategy as information was made available.

Sally Ellis asked what steps had been taken to prevent any further policy breaches. The Interim Finance Manager explained the circumstances leading to the incident and advised that the system had been developed to strengthen controls by flagging up where an investment above the prescribed limit was being submitted for approval. The Corporate Finance Manager said that whilst the incident was unfortunate, this was an isolated case amongst a number of investments and that the team had engaged with Internal Audit over the controls now in place.

The Internal Audit Manager advised that she was satisfied with the improved controls to address this one-off incident and that the effectiveness of the controls would be tested as part of the next audit.

As further assurance, the Chief Executive said that he would follow this up and suggested that future reports include an assurance statement that controls had been followed.

**RESOLVED:**

- (a) That the draft Treasury Management Annual Report 2017/18 be noted, with no matters to be drawn to the attention of Cabinet on 17 July 2018; and
- (b) That the Treasury Management 2018/19 first quarter update be noted.

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

There was one member of the press in attendance.

The meeting commenced at 10am and finished at 11.15am

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**Chair**