

AUDIT COMMITTEE
19 JULY 2017

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 19 July 2017

PRESENT: Sally Ellis (Vice-Chair in the Chair)

Councillors: Glyn Banks, Jean Davies, Chris Dolphin, Andy Dunbobbin and Paul Johnson

APOLOGIES: Councillors Helen Brown and Arnold Woolley

ALSO PRESENT: Councillor Patrick Heesom

IN ATTENDANCE:

Chief Executive; Interim Internal Audit Manager; Corporate Finance Manager; Finance Manager - Technical Accountancy; and Committee Officer

John Herniman and Matthew Edwards of Wales Audit Office

16. DECLARATIONS OF INTEREST

The following members declared a personal interest on agenda item 4 'Draft Statement of Accounts 2016/17':

Sally Ellis - member and family members in the membership of the Pension Fund; and Councillor Glyn Banks - Board Member of NEW Homes.

17. MINUTES

The minutes of the meeting held on 12 June 2017 were submitted.

RESOLVED:

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

18. DRAFT STATEMENT OF ACCOUNTS 2016/17

The Corporate Finance Manager and Finance Manager - Technical Accountancy presented the draft Statement of Accounts 2016/17 (subject to audit) for information. These comprised the Group accounts - including its wholly owned subsidiary North East Wales (NEW) Homes - and the Clwyd Pension Fund. The final audited accounts would be received on 27 September for approval and recommendation to County Council on the same day, prior to the statutory publishing deadline of 30 September. This was a corporate document produced from significant work across the Authority, in particular the Technical Accounting team in Corporate Finance.

A presentation was made covering the following areas:

- Purpose and Background
- Contents and Overview
- Responsibility
- Links to Budget Monitoring
- Headlines - Council Fund, Reserves at Year End, Capital and Housing Revenue Account (HRA)
- Changes to 2016/17 Statement of Accounts
- Principal Statements
- Accounts Governance Group
- Progress in addressing prior year issues
- Timeline and next Steps
- Impact of earlier deadlines on materiality

Mr John Herniman of Wales Audit Office (WAO) explained the general approach to the audit in taking an overall view on materiality to inform judgements on the accuracy of the accounts and that the inevitable reporting of misstatements may not necessarily require amendments. He welcomed the arrangements for the Accounts Governance Group to have oversight of the process. He highlighted the introduction of earlier statutory publishing deadlines for future accounts as a significant challenge to all and suggested that the Council may wish to consider trialling this at an earlier stage. The effect of early closure would mean a greater emphasis on estimated data and possibly more minor errors in the accounts but the focus was on ensuring they were materially correct and therefore the Council might not want to amend for minor errors.

Mr Matthew Edwards of WAO confirmed receipt of the draft accounts within the deadline and thanked the Finance officers for providing information to support the accounts which contributed to the efficiency of the audit. Any key issues arising from the audit would be summarised in the report due at the next meeting.

The Chief Executive spoke about the effective role of the Accounts Governance Group on the accounts work. In welcoming the advice from WAO colleagues on meeting the challenge on earlier deadlines, he gave assurance that resources in the Finance team would be monitored to ensure they were sufficient to discharge the statutory duties.

In response to concerns raised by Councillors Chris Dolphin and Glyn Banks, Mr Herniman clarified that the proposed change to accounts publication dates for Welsh local authorities was a Welsh Government decision which followed changes made in England driven by UK Treasury to produce the UK's Whole of Government Accounts quicker. Whilst acknowledging the challenges, there was a benefit in having an earlier understanding of the year end position. On his earlier comments, he explained that accounts inevitably included some degree of estimated data and minor issues did not generally impact on the opinion of material correctness which was the main consideration. When asked about the possibility of an earlier indication of the provisional settlement, the Chief Executive advised that this would have no impact on the accounts.

Councillor Paul Johnson raised concerns that the timeline for the 2020/21 draft accounts did not allow sufficient time for democratic oversight by Members, particularly given the purdah period. Mr Herniman referred to the election cycle and said that the incoming Council should still have the opportunity to consider the accounts within the shorter timescale. The Chief Executive said that the election period would not affect the production of accounts by the due deadline.

The Chair asked about the pension liability impact on the net worth of the Authority and was informed that the increased liability was due to necessary changes made to financial accounting assumptions by the actuary in calculating the liability. Members were reassured that the pensions accounting transactions were necessary to comply with generally accepted accounting practice, however had no impact on the Council's bottom line with transactions input in the Income and Expenditure Statement and reversed out in the Movement in Reserves Statement. On the valuation of Council dwellings, the Finance Manager clarified that there was no operational impact and explained the background to the method in calculating the value which had been adopted for use in the accounts.

On further questions from the Chair, the Corporate Finance Manager spoke about the distinction between earmarked and un-earmarked reserves and advised on the continual draw-down of Single Status reserves. The Chief Executive highlighted the level of reserves as an area of risk as they continue to reduce and cannot be relied upon for use in balancing the Council's budget during this continuing period of austerity.

When asked by Councillor Banks about contingency reserve levels, the Corporate Finance Manager advised that the Council had a policy of maintaining a base level of reserves around 2% of turnover which was considered sufficient and that reserves were reviewed continually with an annual statement included in the annual budget report to Council.

On the balance sheet, the Chair queried the significant increase in short-term debtors and was informed that fairly large movements were generally to be expected in debtors and creditors and could be affected by when payments of grant funding were made. This particular movement was mainly due to the loan made to NEW Homes which was classed as 'short-term' as it was in the development phase of building affordable homes in Flint. Explanation was also given on the accounting adjustment for 'accumulated absences' which reflected leave owed to employees with no operational impact.

The degree of analysis by the Committee was welcomed by Mr Herniman who acknowledged the complex nature of local government accounts.

In response to a query by the Chair on critical judgements and assumptions, explanation was given on the treatment of Community Asset Transfers and embedded leases within the fleet services contract in the accounts.

Councillor Andy Dunbobbin referred to the terminology used to explain the asset valuation methodology and stressed the importance of the public document being readable and understood. The Finance Manager said the lack of national guidance on the valuation method had been highlighted and that further representations could be made. In acknowledging the point about terminology,

she pointed out the challenges in balancing accounting requirements and use of plain language in the document.

The Chair drew comparison with the accounts of some other authorities and commended Flintshire's approach to including explanatory notes. She said that the presentation had helped to give an overview of the key points.

On Community Asset Transfers, Councillor Dolphin pointed out reference to the risk remaining with the Council and said that this risk was shared by community groups taking on the assets. He went on to comment that the membership of the Committee should, in his view, be increased.

On contingent liabilities, Councillor Johnson asked about the national legal case on funding social care and was advised that the judgement pending would be significant to councils in Wales and the Health Boards and that quantifying potential costs was difficult. The Chief Executive referred to the risks associated with some of the other contingent liabilities being outside the Council's control.

In response to a query by Councillor Dunbobbín on borrowing from Public Works Loan Board (PWL B), Mr Edwards of WAO said that this was part of the risk-based approach to auditing and that the outcome would be reported in September.

Mr Herniman clarified that no issues of concern had been identified on the accounts at this stage.

The Chair reminded Members of the opportunities available to seek clarification on issues in the draft accounts, as set out in the report. The Chief Executive said that responses to queries raised on the draft accounts would be shared with all Members prior to the final stages.

RESOLVED:

- (a) That the draft Statement of Accounts 2016/17 (which includes the Annual Governance Statement approved by the Committee at its June 2017 meeting) be noted; and
- (b) That the Committee approve the arrangements for the 'drop in sessions' that have been arranged for early September and 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 27 September 2017.

19. SUPPLEMENTARY FINANCIAL INFORMATION TO DRAFT STATEMENT OF ACCOUNTS 2016/17

The Corporate Finance Manager presented supplementary financial information to accompany the draft Statement of Accounts 2016/17 in line with the Notice of Motion approved in 2013.

The information on posts covered by interim or temporary appointments showed the amounts paid to organisations for such arrangements and did not reflect 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.

On the latter, the Chief Executive explained that these were specialist services for which there could be no retained in-house capability.

RESOLVED:

That the report be noted.

20. TREASURY MANAGEMENT ANNUAL REPORT 2016/17 AND TREASURY MANAGEMENT UPDATE QUARTER 1 2017/18

The Finance Manager - Technical Accountancy presented the Annual Report on the Council's Treasury Management Policy, Strategy and Practices 2016/17 for review and recommendation to Cabinet.

As part of an update on Treasury Management activity in the first quarter of 2017/18, a slight increase was reported in the investment portfolio. The position on borrowing reflected the strategy to use short-term borrowing at lower rates. A graph showed movement on investments and short-term borrowing balances between April 2016 and June 2017. To support the reporting cycle for 2017/18, a training session by the Treasury Management advisers, Arlingclose Ltd would be arranged for all Members in early January 2018.

The Chair highlighted the need for assurance on the ability of the revenue account to support the increasing external debt levels along with comparison with other councils. The Finance Manager agreed to incorporate this in the next update report. She drew attention to the recent Cabinet report on Prudential Indicators which included the percentage of revenue costs servicing long-term debt.

In response to queries from the Chair, explanation was given on the specialist services provided by Arlingclose and on the debt maturity profile where peaks reflected the loans taken out to end the negative housing subsidy system.

Councillors Paul Johnson and Chris Dolphin raised queries on short-term borrowing between councils. The Finance Manager explained that there was a difference between managing a council's cashflow and the budgeted position reported by councils, and referred to the graph showing movement in cash balances managed by short-term investments and short-term borrowing.

On Councillor Dolphin's earlier comment, Councillor Glyn Banks felt that the size of the Committee was adequate. He proposed that the Committee, particularly newer Members, could benefit from additional training prior to the Treasury Management training. This was seconded by Councillor Johnson. He also suggested that Arlingclose could deliver the training via a video link. The Finance Manager explained that the contract with Arlingclose allowed for one

training session per year so there may be a small cost for additional training, or consideration could be given to delivering in-house training by officers.

The Chief Executive pointed out the benefits of a smaller specialist Committee membership but said that the size of the Committee could be reviewed at the next Annual General Meeting if Members so wished.

The Interim Internal Audit Manager invited suggestions for specific themes for training which could be included on the Forward Work Programme.

RESOLVED:

- (a) That the draft Treasury Management Annual Report 2017/17 be noted with no matters to be drawn to the attention of Cabinet on 26 September 2017;
- (b) That the Treasury Management 2017/18 Quarter 1 update be noted; and
- (c) That additional training be organised for the Committee prior to the Treasury Management training session.

21. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There was one member of the press in attendance.

The meeting commenced at 2pm and finished at 4.10pm

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Chair