

AUDIT COMMITTEE
5 JUNE 2019

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 5 June 2019

PRESENT:

Councillors: Chris Dolphin, Andy Dunbobbin, Patrick Heesom, Paul Johnson and Arnold Woolley
Co-opted member: Sally Ellis

SUBSTITUTE: Councillor: Clive Carver (for Andrew Holgate)

APOLOGY: Councillor Geoff Collett

ALSO PRESENT: Councillors Glyn Banks, Christine Jones, Billy Mullin, Ian Roberts and Carolyn Thomas attended as observers
Gwilym Bury of Wales Audit Office

IN ATTENDANCE:

Chief Executive; Chief Officer (Governance); Internal Audit Manager; Corporate Finance Manager; and Democratic Services Officer

Corporate Business & Communications Executive Officer - for minute number 6
Senior Auditor - for minute number 9

1. APPOINTMENT OF CHAIR

Councillor Dunbobbin proposed that Councillor Dolphin be appointed Chairman of the Committee. This was seconded by Councillor Heesom and on being put to the vote, was carried. No further nominations were received.

RESOLVED:

That Councillor Chris Dolphin be appointed as Chairman of the Committee.

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

2. APPOINTMENT OF VICE-CHAIR

Councillor Heesom's nomination for Sally Ellis as Vice-Chair was seconded by Councillor Dunbobbin and on being put to the vote, was carried.

RESOLVED:

That Sally Ellis be appointed Vice-Chair of the Committee.

3. **SUBSTITUTION**

In accordance with Constitutional requirements, the Committee agreed to allow Councillor Carver to substitute for Councillor Holgate. It was confirmed that Councillor Carver had undertaken the requisite audit training.

RESOLVED:

That Councillor Clive Carver be permitted as a substitute for the meeting.

4. **DECLARATIONS OF INTEREST**

None.

5. **MINUTES**

The minutes of the meeting held on 27 March 2018 were received.

RESOLVED:

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

The Committee supported Councillor Heesom's proposal to put on record its thanks to the previous Chair for her work.

6. **ANNUAL GOVERNANCE STATEMENT 2018/19**

The Corporate Business & Communications Executive Officer presented the Annual Government Statement (AGS) 2018/19 for recommendation to County Council to accompany the Statement of Accounts. The process in preparing the AGS involved consultation with Statutory and Chief Officers, Service Managers and Overview & Scrutiny Chairs, with oversight by the Corporate Governance Working Group.

The AGS was based on the seven core principles of good governance on which the Council scored 3 (acceptable) and above on all, with areas of strength highlighted throughout the document. Areas identified for further improvement were derived from four sources including the outstanding 'red' risks in the Council Plan 2018/19 end of year report and not 2017/18 as stated. An update on progress on the areas for improvement identified in the 2017/18 AGS was also included. A mid-year update would give assurance to the Committee that risks were being monitored and addressed.

In thanking the team for their work on this complex document, the Chief Executive said that the aim was to continually seek further improvement even where an acceptable score had been achieved. The dashboard identified the main concerns as capacity and resources. Whilst the assessment against Principle A was not intended to be judgemental, there was a need to give a true reflection on the conduct and culture of the organisation. The aim to improve behavioural standards was being actioned through discussions with Group Leaders, officers and the Chair of the Council. The Chief Executive welcomed

the commitment to improve the areas identified and commended others which reflected best practice.

Sally Ellis welcomed the Chief Executive's acknowledgement of the issues. Whilst she had no major concerns, she highlighted the importance of owning actions. In his role as Monitoring Officer, the Chief Officer (Governance) referred to the various codes/protocols on agreed behaviour and conduct, and the discussions referred to take ownership and encourage meeting those standards.

On workforce planning, actions within the People Strategy were led by the Chief Executive and Senior Manager, Human Resources & Organisational Development and owned by all Chief Officers. Although progress had been made on succession planning, there were risks due to the lean structure of the Council and the implications of external issues such as recruitment in Housing. An update on the People Strategy including workforce planning would be considered by the Corporate Resources Overview & Scrutiny Committee.

On Principle F on change management, Sally acknowledged the work on risk management but was concerned about the number of 'red' audit reports with issues around implementation and transition. The Chief Executive said that this was about scale and he spoke about the Council's positive track record on transition through major policy/service changes. The Internal Audit Manager advised that no issues had been raised on Alternative Delivery Models and that Principle F supported her annual audit opinion. Red assurance reports such as that reported later on the agenda were isolated cases and there were no concerns about aggregation, however any red reports issued during the year had been separately identified within the AGS.

Councillor Heesom spoke about the importance of the AGS which he said was officer driven and lacked Member involvement. He said that as Members were accountable for the AGS, they should be given opportunity to contribute to the self-assessment process. He stressed the importance of managing risks and had major concerns about the risk issues contained in the document.

The Chief Executive said that the Committee had previously agreed the process for preparing the AGS which was a culmination of information already in existence, for example risk assessments which were reviewed by Overview & Scrutiny and Cabinet.

Councillor Dunbobbin referred to the Committee's role in seeking assurance that process was being followed, which differed to the remit of Overview & Scrutiny committees.

The Chief Officer (Governance) spoke about the complexity of the internal control environment where key responsibilities were allocated across the organisation with an overall view by the Audit Committee. The contributors to an effective Governance Framework within the AGS set out those roles, most of which involved Members. The liaison group comprising the Chair and Vice-Chair of the Audit Committee and Overview & Scrutiny Chairs helped to ensure that risks were sufficiently allocated and managed.

The Executive Officer said that the number of risks which had been identified demonstrated the open and transparent approach taken by the Council, supported by action plans.

The Chairman referred to the importance of the governance principles across the Council and the need to work together in moving forward.

RESOLVED:

That the Committee recommends to the Council the Annual Governance Statement 2018/19 to be attached to the Statement of Accounts.

7. INTERNAL AUDIT ANNUAL REPORT

The Internal Audit Manager presented the report which summarised the outcome of audit work undertaken during 2018/19, compliance with Standards and the results of the quality assurance and improvement programme. The audit opinion was that overall, the Council had an adequate and effective framework of governance, risk management and control.

In reaching her opinion, the Internal Audit Manager had considered the two red assurance reports and the 75% green or amber/green assurance opinions issued during the year, which were an improvement on the previous year. There had been more involvement by senior management on the development of action plans where 73% of actions raised during the year had been implemented, with the remainder generally due to extended due dates. On section 2.9, analysis of themes identified from investigations would be an area of focus for the team.

The Chief Executive said that the opinion gave strong assurance on the control environment. He spoke about the high degree of escalation on red assurance reports to ensure management actions were followed through. He acknowledged the value and quality of the Internal Audit team, particularly on advisory/consultancy work which had increased over time.

In response to Councillor Johnson's question about the impact of workforce reduction on risks, attention was drawn to the increase in advisory work and the analysis of action categories which mainly related to policy or operational issues.

Councillor Carver pointed out an error with the page numbers on the index page.

On audit coverage, Sally Ellis questioned whether the level of audit work in Social Services was sufficient, compared to other portfolios. The Internal Audit Manager said that she was satisfied, having consulted with the Chief Officer, and that four audits had been completed with more scheduled on the plan.

The Chief Executive acknowledged the concerns and given the size of the portfolio and amount of commissioning work, agreed to discuss further with officers and provide a response.

When asked about team resources, the Internal Audit Manager referred to the development of a Job Evaluation Questionnaire to help with succession planning to fill the vacant post. The recruitment process would incorporate a further vacancy arising from the forthcoming retirement of another member of staff.

In response to a question from Councillor Dunbobbin on audit work in Social Services, the Internal Audit Manager said that a balanced view was taken on the value of audit work against report of external regulators.

RESOLVED:

That the report and Internal Audit annual opinion be noted.

8. INTERNAL AUDIT CHARTER

The Internal Audit Manager presented a report to consider the outcome of the latest review of the Charter in order to meet legal and regulatory requirements and suggestions from the recent external assessment of service compliance. Some minor changes had been made to reflect current working practice, terminology and positions within the Council.

Following a question by Sally Ellis on section 4.13, it was confirmed that the Internal Audit Manager did not currently have responsibility for services outside Internal Audit. The section was included in the Charter in the event of any future changes to enable appropriate safeguards to be introduced.

The Internal Audit Manager provided clarification to Councillor Paul Johnson on the range of skills and qualifications within Internal Audit which met competency requirements of the Code of Ethics.

RESOLVED:

That the updated Internal Audit Charter be approved.

9. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented the update on progress of the Internal Audit department. Amongst the reports issued since the last meeting, there was only one with red/limited assurance on Accounts Payable.

The Senior Auditor for the review, Rafaela Rice, advised that the audit focussed on business and system controls. Whilst some areas were found to be well managed, she provided explanation on the key issues set out in the report. The controls which had been introduced significantly reduced the risk of future potential duplicate payments and actions completed to date had been validated by Internal Audit.

In acknowledging the seriousness of a red assurance audit report, the Corporate Finance Manager confirmed that the issues identified had been promptly escalated to himself and the Chief Executive. Officers had worked closely with Internal Audit to understand the issues and put in place preventative

controls. It was noted that the duplicate payments had arisen from some control weaknesses and no evidence had been found of collusion with vendors or fraud. As set out in the report, a number of actions had been implemented including more robust daily procedures to review transactions to identify potential duplicate payments in advance of the payment run.

The potential gross overpayment of £939K identified during the period included entries where references were similar in nature and these would be investigated. It was found that the actual duplicate total amount was £373K of which half was a single payment to a specific contractor. In providing context, it was noted that in 2017/18 the Council dealt with invoices totalling £777M and £943M in 2018/19. With the exception of an amount of £416.50 which had been written off, all duplicate payments had now been recovered. The Corporate Finance Manager would shortly take on line manager responsibility for the AP/PR team and would closely monitor progress on the actions. To show transparency on the issue, the timely payment of invoices would be included as a Key Performance Indicator to be reported as part of the Medium Term Financial Strategy.

The Chief Executive said that the report - which had arisen from a combination of system controls and roles - had been concerning. He said that the findings raised a question about the ethical behaviour of some contractors in respect of larger duplicate payments. He gave assurance of the level of work being undertaken on actions on which he would have personal oversight.

Sally Ellis acknowledged the point about ethical behaviour of the contractor in receipt of the significant single duplicate payment. The Chief Executive agreed that this should be followed up and officers explained that the company had been taken over by another since the payment was made.

Following comments by Councillor Carver, the Corporate Finance Manager spoke about the limitations of the current financial system and said that alternative options were under consideration. He reiterated the actions in place to identify potential duplicate payments.

The Internal Audit Manager provided an overview of the four amber/red assurance reports issued this year.

Sally Ellis observed that common issues on reports were where services/systems were undergoing change, uncertainty on IT matters or lack of documented procedures. The Internal Audit Manager said that policy procedure and operational issues were reflected in the annual report and that the team's involvement on smaller system changes could be an area for future consideration.

Sally said that transition planning had previously been identified as an area of weakness and could be given more priority, for example including trigger questions within the framework. The Internal Audit Manager said that this could be progressed with Chief Officers to identify key risks.

The Chief Executive spoke about the limitations on software systems to adapt to future changes. He said that to give assurance to the Committee,

officers would discuss common areas of weakness and learning to build into the process going forward.

RESOLVED:

That the report be accepted.

10. ACTION TRACKING

The Internal Audit Manager presented the update report on actions arising from previous meetings, where the vast majority had been completed.

RESOLVED:

That the report be accepted.

11. FORWARD WORK PROGRAMME

The Internal Audit Manager presented the current Forward Work Programme for consideration, which also provided an opportunity to identify training needs. In addition, the Committee would be given briefings on key pieces of work such as training on the Statement of Accounts prior to the meeting (in advance of the draft accounts being considered at the next meeting).

Sally Ellis pointed out that the Clwyd Pension Fund Statement of Accounts would accompany the Council's accounts scheduled for the July meeting.

In response to a question from Councillor Johnson, it was clarified that the item on Contract Management due in September would deal with management of the performance of contractors whilst reflecting earlier discussion on the red assurance audit report.

RESOLVED:

- (a) That the Forward Work Programme, as amended, be accepted; 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.

12. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

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

The meeting commenced at 10am and finished at 11.30am

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Chairman