

AUDIT COMMITTEE
23 JULY 2020

Minutes of the meeting of the Audit Committee of Flintshire County Council held as a remote attendance meeting on Thursday, 23 July 2020

PRESENT: Councillor Chris Dolphin (Chairman)

Councillors: Janet Axworthy, Geoff Collett, Andy Dunbobbin, Patrick Heesom (present for part of the meeting), Paul Johnson and Arnold Woolley

Co-opted members: Sally Ellis and Allan Rainford

APOLOGY: Internal Audit Manager

IN ATTENDANCE:

Councillor Glyn Banks (Cabinet Member for Finance), Billy Mullin (Cabinet Member for Corporate Management and Assets), Chief Executive, Chief Officer (Governance), Corporate Finance Manager, Interim Finance Manager (Technical Accounting), Principal Auditor, Principal Accountant, Team Leader - Democratic Services and Democratic Services Officer

Matt Edwards and Gwilym Bury of Audit Wales

60. DECLARATIONS OF INTEREST

The following declared personal interests on the Draft Statement of Accounts (agenda item 4):

Councillor Axworthy - Board member of NEW Homes

Councillor Dunbobbin - Chair of Governors at Connah's Quay High School (21st Century Schools Programme)

61. MINUTES

The minutes of the meeting held on 29 January 2020 were approved, as moved by Councillor Dunbobbin and seconded by Councillor Johnson.

RESOLVED:

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

62. DRAFT STATEMENT OF ACCOUNTS 2019/20

The Corporate Finance Manager presented the Draft Statement of Accounts 2019/20 (subject to audit) for information only at this stage. These comprised the Group accounts, including its wholly owned subsidiaries, and the Annual Governance Statement to be considered later on the agenda. The Committee would receive the final audited accounts for approval on 9 September, ready for publication by the statutory deadline of 15 September.

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
- Accounts Governance Group
- Links to Budget Monitoring
- Headlines - Council Fund, Revenue Reserves, Capital and Housing Revenue Account (HRA)
- Changes to the Accounts for 2019/20
- Group Accounts
- Impact of COVID-19
- Timeline and Next Steps
- Impact of Earlier Deadlines
- Clwyd Pension Fund Accounts

Allan Rainford asked about public inspection of the accounts and was advised that if such requests could not be accommodated electronically then an appointment would be made at one of the Council's buildings, in accordance with physical distancing guidelines. When asked about the challenges in producing the accounts during the emergency period, the Corporate Finance Manager said that agile working was part of normal business practice and that teams had adapted to an extension of this arrangement. On the accuracy of figures, he gave assurance that there had been no change to estimating techniques and that the robust quality assurance process had been strengthened by other teams providing verification of figures.

Matt Edwards of Audit Wales gave assurance that there had been regular engagement with the Finance team throughout the process to deal with emerging issues in order to mitigate the risks and challenges arising from the emergency situation.

In response to questions from Sally Ellis on short-term debtors, officers explained that the figures reflected the position at that stage in the process. The increase in the category marked 'Other' comprised an additional amount for Parc Adfer along with a number of individual debtors with low balances outstanding at that particular time. On the NHS debt, the Chief Executive reported positive progress with the matter due to be reviewed again during the Autumn to enable the national pandemic to take priority. The Corporate Finance Manager said that whilst that the figure in the accounts was the position at that time, an update would be provided in a written response to the Committee.

To prepare for the challenges around the 2020/21 accounts, Sally Ellis asked that the Committee be kept informed of any emerging issues to help carry out its role. The Corporate Finance Manager advised that preparations were underway and that achieving the early timeline for this year's accounts amidst challenging circumstances reflected positively on the process for next year.

In response to questions from Allan Rainford, the Corporate Finance Manager referred to the Council's robust and transparent protocol for setting reserve levels, which had been maintained at a base level of £5.8m (around 2% of the budget) for some years and reviewed annually. In addition to this amount,

Contingency Reserves were used to create capacity to address unforeseen significant risks in-year. The allocation of £3m of Contingency Reserves to mitigate the financial impacts from the pandemic had helped to protect the base level of reserves. Criteria for capital grants had been tracked as a key corporate risk, however the flexibility introduced by Welsh Government (WG) meant that the Council was able to submit a claim to account for expenditure for the period from April to June.

The Interim Finance Manager agreed to provide a separate response to the Committee on the amount of £374k on note 28 for related parties (officers). He would also share information on Sally Ellis' question regarding the fluctuation in management and supervision costs on the HRA - Income and Expenditure and Movement on Reserve Statements.

Councillor Johnson asked about the Committee's role in respect of the issues arising from the emergency situation. The Chief Executive said that accounting retrospectively for the additional spend would need to form part of the narrative and separated from the accounts as extraordinary spend of scale. The presentations later on the agenda gave an oversight of actions taken to respond to the pandemic.

The Chief Executive's suggestion for a quarterly report on how the Council was proportionately responding and its approach to making risk-assessed decisions was welcomed by Councillor Axworthy.

In thanking officers for the presentation and report, Councillor Banks referred to the opportunity for Members to discuss any aspect of the accounts with Audit Wales. To facilitate this, contact details would be shared.

The recommendations in the report were moved and seconded by Councillors Dunbobbin and Johnson.

RESOLVED:

- (a) That the draft Statement of Accounts 2019/20 (which includes the Annual Governance Statement) be noted; and
- (b) That Members note the opportunity to discuss any aspect of the Statement of Accounts with officers or Audit Wales from July to September, prior to the final audited version being brought back to the Committee for final approval on 9 September 2020.

63. SUPPLEMENTARY FINANCIAL INFORMATION TO DRAFT STATEMENT OF ACCOUNTS 2019/20

The Interim Finance Manager (Technical Accountancy) presented the supplementary financial information to accompany the draft Statement of Accounts 2019/20 as requested by the Notice of Motion approved by the Council in 2013.

Whilst the Chief Executive welcomed the reduction in the number of consultants employed, he raised concerns about costs relating to two posts, one

a Council employee and the other an interim arrangement, which he said had not received sufficient managerial oversight. In recognising the difficulties in recruiting to social care and with high costs relative to the grading of posts, he said that both cases had been challenged and assurances received that robust advice had been given to supervising managers to prevent reoccurrence. As a further step, Human Resources colleagues were to monitor any further instances of poor oversight of agency placement management in social care.

The recommendation was moved by Councillor Johnson and seconded by Councillor Dunbobbin.

RESOLVED:

That the report be noted.

64. ANNUAL GOVERNANCE STATEMENT 2019/20

The Chief Executive presented the Annual Government Statement (AGS) 2019/20 to accompany the Statement of Accounts. The report set out the process for preparing the AGS and the intended approach which was not possible due to the national emergency. The report also indicated that Audit Committee Member participation would be an integral part of the 2020/21 process.

The Chief Executive spoke about the importance of the AGS in helping to manage risks year on year by taking mitigating actions to address significant strategic issues. Examples were the increase in residential care capacity to manage the crisis, support given to rough sleepers and the Council's ability to set a balanced budget despite the challenges.

In response to a question from Councillor Johnson on reviewing mitigating actions to respond to the national emergency, the Chief Executive acknowledged that impacts on 2020/21 would be significant, for example on challenging debt levels for Council Tax and rent arrears. He said that the Council's Recovery Strategy would be recommended to the cross-party Member Recovery Board seeking agreement that Overview & Scrutiny committees meet at the end of September to assess the impacts across all portfolios and mitigating actions.

Sally Ellis asked that the AGS reflect the commitment for more Member involvement on the AGS which had not been possible during the crisis. The Chief Executive agreed and said that the process and timescale to enable this engagement in Quarter 4 would be shared with the Committee during the Autumn.

In response to questions on outcomes from the crisis, the Chief Executive said that work on the risk approach was well advanced with quality, comprehensive risk assessments to aid risk mitigation and help manage the emergency. The six recovery risk registers supposed by business plans would be shared with the Committee following the meeting. The Principal Auditor spoke about the benefits of effective working relationships with performance and risk teams with clearly defined roles and responsibilities. On the need for a balance between reactive and preventative actions to respond to significant events,

officers said that the resilience of Business Continuity Plans - including a 'dry run' of testing for a pandemic scenario in the previous year - as part of the regional Emergency Planning service had useful in preparing for the challenge.

Allan Rainford asked about independent verification of areas of effectiveness in the Council's governance framework. The Chief Executive spoke about the Council's track record on implementing feedback from peer challenges, as regularly reported to the Committee. He highlighted regional partnership working which had been a particular strength of the Council for some time, evidenced in regulatory reports from partners such as Audit Wales, Estyn and Care Inspectorate Wales. The Council's lead role in implementing the North Wales Test Trace Protect (TTP) scheme had been recognised as good practice exemplar by Welsh Government.

The recommendation was moved and seconded by Councillor Dunbobbin and Sally Ellis.

RESOLVED:

That the Annual Governance Statement 2019/20 includes the commitment to increase Member involvement from next year, and be endorsed and attached to the Statement of Accounts for adoption.

65. PANDEMIC EMERGENCY RESPONSE: GOVERNANCE AND CONTROL ARRANGEMENTS

AND

66. ASSURANCE AND THE INTERNAL CONTROL ENVIRONMENT

The Chief Executive gave a presentation on the governance arrangements in place during the emergency response phase. The presentation covered the following areas:

- National Chronology
- Local Chronology
- Command Structure - Hierarchy / People and Groups
- Decision-making and Risk Management
- Financial Risk Management
- Recovery Planning
- Reflections

An overview of the governance structure showed the interaction between the Emergency Management Response Team (EMRT) (Gold) and underlying tactical (Silver) and operational (bronze) groups, including Health & Social Care and Poverty whose work had been recognised at national level. Financial risk management was a significant area involving tracking and monitoring of all revenue and capital risks including loss of income. The Council was working closely with Welsh Government (WG) on financial risk profiling and accessing national emergency funding. Significant risks in approaching Quarter 2 were dependent upon new funding streams from WG and there were particular concerns about pressures arising from the Winter period such as those in the

health sector. As part of recovery planning, the Member Recovery Board would receive the Recovery Strategy prior to normal democratic structure arrangements re-commencing in September.

The Principal Auditor gave a presentation on risk management and maintaining the internal control environment in respect of changes to services during the emergency period. The presentation covered:

- Pre-Coronavirus - context
- Risk Management - current context
- Three Lines of Defence - relevance
- Internal Audit Response - thus far
- Emergency Management Assurance (EMA)
- Risk Method Statement Challenge Project
- Internal Audit Response - future

Although the Audit Plan for 2020/21 had been prepared at the start of the year, a revised Plan would need to be shared in September to incorporate risks arising from the emergency period. The presentation highlighted a number of key controls that were vital to the recovery process and required a different way of working.

In acknowledging the need for officers to respond to the crisis, the Internal Audit team had focussed on completing 2019/20 advisory and assurance work, along with the Annual Governance Statement. The team had added value in a number of areas, including representation on the EMRT and the Test Trace and Protect scheme. Audit work carried out for 2020/21 included the '5 Key Financial Decisions' review which looked at the use of emergency reserves and care home capacity, concluding that strong controls were in place. Audit work on the Emergency Management Assurance (EMA) mechanism provided assurance on support for the first line of defence and had been shared with Audit Wales.

The Chairman thanked the Chief Executive for sharing regular updates with Members on the Council's response throughout the emergency period.

In praising the Council's response and emergency arrangements, Sally Ellis said that similar assurance would be required on recovery management as a potential area of risk. The Chief Executive said that regular updates on the continuing response were reported to the Member Recovery Board and that open risks were recorded in the interim Recovery Strategy which was due to be finalised by September prior to the committee structure resuming. On the consolidation of learning, senior officers were due to consider various outcomes including safe working practices and all Silver tactical groups would be preparing closing reports with recommendations for future implementation. On the potential for an increase in fraud during the pandemic, officers gave examples of proactive work by Internal Audit in performing due diligence checks on grant eligibility. In addition, work on the EMA indicated that finance systems working remotely during the period were unchanged and provided assurance on fraud prevention.

In response to a question from Allan Rainford, officers provided clarification on the key role of the Internal Audit Manager on the Rainbow

Hospital project. The Chief Executive gave a brief overview of the current position on the project.

Councillor Banks took the opportunity to commend the Chief Executive and Chief Officer team for their work in response to the pandemic.

The Chairman also commended the officers for the emergency response phase work.

67. TREASURY MANAGEMENT ANNUAL REPORT 2019/20 AND TREASURY MANAGEMENT UPDATE QUARTER 1 2020/21

The Interim Finance Manager (Technical Accountancy) presented the draft Treasury Management Annual Report 2019/20 for review and recommendation to Cabinet. The Quarter 1 update on matters relating to the Treasury Management Policy, Strategy and Practices 2020/21 was also shared for information, along with the reporting cycle.

In preparation for approving the Treasury Management Strategy 2020/21, all Members would be invited to the annual training session in December facilitated by the Treasury Management Advisors. Details of how the training would be delivered would be shared at a later stage. Key areas of the Annual Report 2019/20 were summarised, such as the continued low level interest rates and yield on investments. Borrowing activity included the allocation of loans to NEW Homes to fund the Council house building programme.

On the Quarter 1 update for 2020/21, despite the challenges from the emergency situation, treasury management was in a relatively strong position due to the work undertaken by the Finance team. Whilst the investment strategy with the Debt Management Office (DMO) reflected priority given to security of funds, the Council had recently started to invest again with Money Market Funds which offered a better yield.

Allan Rainford was pleased to note there had been no breaches against the Council's strategy. In response to questions on interest rates, the Interim Finance Manager advised that an increase in short-term rates was not expected soon. On borrowing, regular monitoring took place to assess long and short-term borrowing with a monthly review to discuss requirements.

On short-term borrowing, Councillor Johnson commented on the difference in brokerage fees from local authorities since the previous year. The Interim Finance Manager would look into this and provide a separate response.

The recommendations were moved by Allan Rainford and seconded by Councillor Johnson.

RESOLVED:

- (a) That the draft Treasury Management Annual Report 2019/20 be noted, with no matters to be drawn to the attention of Cabinet in September; and
- (b) That the Treasury Management 2020/21 first quarter update be noted.

68. ATTENDANCE BY MEMBERS OF THE PRESS

There were no members of the press in attendance.

The meeting commenced at 10am and finished at 12.20pm

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Chairman