

AUDIT COMMITTEE
18 DECEMBER 2013

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 18 December 2013

PRESENT: Councillor Alison Halford (Chair)

Councillors: Glyn Banks, Haydn Bateman, Tim Newhouse and Ian Roberts

LAY MEMBER: Mr Paul Williams

SUBSTITUTE: Councillor: Ron Hampson (for Alan Diskin)

IN ATTENDANCE:

Chief Executive, Head of Finance, Head of Legal & Democratic Services, Internal Audit Manager, Democracy & Governance Manager and Committee Officer

Head of Streetscene (for minute number 55)

Mr. John Herniman of Wales Audit Office (for minute numbers 56 and 57)

Finance Manager - Technical Accountancy (for minute numbers 57 and 58)

52. SUBSTITUTION

Prior to the start of the meeting, the Democracy & Governance Manager explained that Councillor Ron Hampson had received the requisite training and the constitutional requirement for the Committee to consider whether appropriate reasons had been provided for the proposed substitution.

RESOLVED:

That Councillor Hampson be permitted as a substitute for the meeting.

53. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

No declarations of interest were made.

54. MINUTES

The minutes of the meetings of the Committee held on 25 September and 7 October 2013 were submitted. The Chair thanked Councillor Arnold Woolley for chairing the first meeting in her absence.

RESOLVED:

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

55. FLEET MANAGEMENT

The Head of Streetscene introduced a report to update the Committee on the Council's current vehicle fleet tracking arrangements, in response to a request made at the meeting on 25 September 2013. He explained that the installation of tracking units was a key part of the ongoing fleet review which aimed to utilise vehicles in a more efficient manner.

In addition to tracking the movement of vehicles, the system also provided a range of information for monitoring, emergency assistance and insurance claim purposes and was being further developed to send information to vehicles from the Streetscene Contact Centre. Although the units were currently installed on 260 of the Council's vehicles, the intention was for all Council vehicles to have this provision following the implementation of the Fleet Review in the New Year. Information and costs on the installation and maintenance of the tracking system were included in the report.

In welcoming the report, the Chair congratulated the Head of Streetscene and his team for the progress made.

Following queries from Councillor Haydn Bateman, the Head of Streetscene explained that each unit was subject to an ongoing monthly maintenance cost and that the Contact Centre would receive notification if a vehicle was driven outside the defined areas such as on roads which were deemed unsuitable. A problem affecting vehicle batteries due to the tracker continuing to record after the vehicle was parked had been resolved at an early stage.

Councillor Ron Hampson said that despite some initial apprehension from the workforce, the benefits of the system had now been acknowledged.

In response to queries raised by Councillor Glyn Banks, the Head of Streetscene estimated that savings from the Fleet Review were in the region of £1.3m which included those from the tracker system. Data from the tracker units enabled the central Fleet team to produce reports by exception.

The Chief Executive was pleased that the report had been received positively and that the balance of concern on the use of trackers had changed which would benefit drivers in terms of economical fuel use, personal safety and behaviour. The scale of savings to be made from the Fleet Review, led by the Head of Streetscene, was recognised as a significant area of 'value for money' corporate workstream. Flintshire was a lead authority in Wales and the UK for fleet transformation.

Mr. Paul Williams asked if drivers who had undertaken training were required to sign a declaration to adhere to the protocol. The Head of Streetscene explained that the protocol was currently in the development stage and would be rolled out following the implementation of the Fleet Review. He gave assurances that individuals currently using the equipment had received specific training and were required to sign a disclaimer to take responsibility of their driver ID key fobs.

RESOLVED:

That the current coverage and developments of the Fleet Tracking System be noted.

56. ANNUAL AUDIT LETTER

Mr. John Herniman introduced the Annual Audit Letter from the Council's Appointed Auditor, Wales Audit Office (WAO), which summarised the work and key findings from 2012/13 in line with statutory requirements. As reported to the Committee in September at the conclusion of the audit of the financial statements, the letter indicated that the Council had complied with its responsibilities relating to financial reporting and use of resources but found that there was further scope to strengthen its financial controls in a number of areas and that the Council faced significant financial challenge which needed to be addressed.

Mr. Herniman acknowledged that considerable progress had been made on the Medium Term Financial Plan (MTFP) and said that clear plans were needed to address the projected budget gap of £16.5m for 2014/15. He emphasised that despite progress made, the risks and financial pressures remained and the projected longer term financial gap of £47.8m over the next few years would need to be addressed with plans put in place for the workforce, achievement of savings, monitoring of progress and implementation of backup plans, if required, to balance the budget. Mr. Herniman went on to say that he recognised the good progress that had been made towards finalising the Single Status agreement.

In response to comments made by the Chair on significant costs incurred following the liquidation of AD Waste, Mr. Herniman was unaware of any further costs and said that WAO had been satisfied that the adjustments made had been correctly treated in the accounts for 2012/13 on which an unqualified clean audit opinion had been granted.

Mr. Paul Williams sought clarification on the WAO view on the Council's MTFP and asked about the Committee's role in helping to keep this on track. Mr. Herniman replied that detailed plans were required to achieve savings and set a balanced budget and whilst it was accepted that this was being progressed, the risk needed to be flagged up. The WAO would assess this as part of the audit in the coming year and the Committee would need to focus on the development of the MTFP along with other reporting processes in the Council as part of its work.

The Chief Executive emphasised that the scale of financial change needed was due to national decisions on funding and that the recognition to develop a resilient MTFP had previously been accepted by the Council. Whilst Flintshire had benefited from early planning in achieving efficiencies over the past three years, in comparison to some other Councils, further efficiencies were now required to address the significant longer term challenges faced nationally by all Councils. Plans including value for money reviews were being shared in Member workshops in December and Overview & Scrutiny budget meetings being arranged for January 2014 with an overarching view on risks to be considered by

the Corporate Resources Overview & Scrutiny Committee at the end of the process for onward submission to Cabinet.

The Head of Finance reiterated that the Council recognised the challenges from the budget position which applied to all Councils in Wales over the next five years. She gave assurances that the Council was mindful of the risks and need for long-term planning, which would be shared with Members over the coming weeks and months.

In response to a question from the Chair on liability for pension contributions on equal pay liabilities, Mr. Herniman said that this was a long-standing issue affecting all Councils. Although legal advice obtained by the Council and other Councils differed to that of the Appointed Auditor, the WAO had agreed that litigation action (to resolve the issue) would not be beneficial and had therefore taken a pragmatic view that no further action was required. In noting the stance taken by WAO, the Head of Legal & Democratic Services spoke of the potential for variations in legal advice and said that the Council had followed the advice of Geldards and that a choice was available to individuals. In response to a further question, the Chief Executive said that the Council had retained Geldards as the expert solicitors engaged by a number of Welsh Councils with shared costs and that the advice had been followed successfully with no challenge from Trade Union colleagues. As part of an update on Single Status, he advised that following approval of the Agreement at County Council on 29 October 2013, the workforce reaction to receipt of results letters had been broadly well received with enquiries being dealt with by the temporarily dedicated HR Contact Centre. A date for the Trade Union ballot was awaited for the New Year, with implementation of the Agreement scheduled for 1 April 2014.

Mr. Williams sought assurance that there would be sufficient resources in the Finance section to carry out additional work on the budget. The Head of Finance said that there were no concerns at the present time as work on the MTFP and budget was part of the work of the Finance division to support the organisation, however any problems with capacity would be flagged up should they occur.

The Chief Executive recognised that resources would be stretched by the changes needed to address the budget position and the impacts of Single Status on staff, with difficult decisions to be made for the capacity of the whole organisation to enable the sustainability of the future budget.

The Chair thanked Mr. Herniman and Ms. Amanda Hughes from WAO (who was not able to be present at the meeting).

RESOLVED:

That the Annual Audit Letter to County Council Members be noted.

57. AUDIT OF FINANCIAL STATEMENTS 2012/13 - ISSUES RAISED

The Finance Manager - Technical Accountancy introduced the Council's response to the Wales Audit Office (WAO) report 'Audit of Financial Statements 2012/13' and action plan of how issues raised in the report would be addressed.

In thanking the teams involved for the significant amount of work which had been undertaken between September and December 2014, the Head of Finance drew attention to positive actions being taken by both Finance and Valuation & Estates colleagues to respond to issues raised by WAO, particularly those which were related to accounting for assets within the financial statements.

In response to a query from Councillor Haydn Bateman on the uncorrected misstatement on the Clwyd Pension Fund, Mr. John Herniman of WAO said that figures received from Fund Managers after year end allowed only a short period to make the adjustments in the accounts. The WAO had understood the view taken by the Council not to make the adjustment due to the amount concerned in the context of the Pension Fund and the accounts were subsequently given a clean opinion.

RESOLVED:

That the report and action plan be noted.

58. TREASURY MANAGEMENT MID YEAR REPORT 2013/14

The Finance Manager - Technical Accountancy introduced an update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2013/14 to the end of September 2013. In summarising the key points of the mid year report, she advised that performance during this period was generally on track with expectations made in the Treasury Management Strategy approved by the Committee earlier in the year. An update was also provided on preparations for the Treasury Management Strategy 2014/15 and current status of Landsbanki investments.

The Chair referred to the annual Treasury Management training session arranged for 27 January 2014 and urged members to contribute topics for discussion.

In response to a query from Councillor Haydn Bateman on the £83.3m maximum investments that the Council had on deposit at any one time, the Finance Manager explained that this was made up of a number of reserves which would be affected by cashflow timings and that the balance was higher during early months of the year before reducing. When asked about the average surplus, the Finance Manager would provide a separate response but added that this figure would vary at different times of the year and between one year to another. When the Single Status/Equal Pay reserve was utilised, the balance would reduce and the liquidity would have to be managed to ensure cash was available when needed. This would be included in the breakdown within the Treasury Management Strategy for 2014/15 to be submitted to the next meeting of the Committee.

Following explanation on the availability of a higher rate of interest applied to an investment with the Bank of Scotland taken out over a year ago, the Finance Manager agreed that this example could be included in the training session.

The Finance Manager agreed to follow up a request made by Councillor Glyn Banks for a breakdown of information on the Debt Maturity Profile graph in the report. When asked about the potential for borrowing at the present time, she explained that due to current rates, the advice would be to spend reserves within the system prior to any new borrowing. Once the Single Status/Equal Pay reserve was depleted, a view would be taken on an appropriate time to borrow in the most cost-effective way.

Following a question from Councillor Ron Hampson on the use of Single Status/Equal Pay reserve, the Chief Executive said that these were only used to meet one-off costs such as projected costs for settlement of equal pay liability, 'backpay' and pay protection, together with some contingency for risks over the next two years as part of the adopted Single Status Agreement. Any additional costs after this time would become a pressure for the Council in-year and had been included in the Medium Term Financial Plan. The Head of Finance added that this Reserve would deplete over time in accordance with the strategy agreed by Council in October and that adjustments would be made accordingly in cashflow projections.

Councillor Bateman asked if there were any restrictions on the number of investment counterparties. The Finance Manager replied that there were no such limits although criteria needed to be followed on the credit rating of counterparties, length and amount of investments which were set by the Council and approved by the Committee. She pointed out that a high number of counterparties resulted in greater competition and a better spread of risk to achieve a balance on portfolios and risk to a level that was comfortable.

Councillor Tim Newhouse suggested that the training session incorporate examples of where debt on outstanding loans attracted high rates of interest and why it was not economical to reschedule these.

In response to a question from Mr. Paul Williams on debt profiling, the Finance Manager said that the Treasury Management Strategy for 2014/15 would include a section on the movement and tracking of reserves through debt and that this would be covered in the training session.

RESOLVED:

That the draft Treasury Management Mid Year Report 2013/14 be noted.

59. CORPORATE GOVERNANCE

The Democracy & Governance Manager presented a report to agree the annual update of the Code of Corporate Governance and the preparation process for the Annual Governance Statement (AGS) 2013/14. Suggested tracked changes to the Code were appended to the report along with details of the Corporate Governance Officer Working Group membership on which Jonathan Davies had replaced Sue Ridings. On the AGS, information was provided on the process leading up to approval by County Council with the suggestion that the questionnaire be sent to Overview & Scrutiny Chairs, in addition to Heads of Service, for their input.

Following a query from Councillor Haydn Bateman on section 1.9 of the Code of Corporate Governance which remained unchanged, the Internal Audit Manager explained that 'a more focused approach to audit and inspections' applied to both internal and external audit inspections.

Councillor Tim Newhouse raised concerns over time allocated to the preparation process of the AGS. The Democracy & Governance Manager said that the Wales Audit Office (WAO) required the Council to gather evidence each year to support the contents of the AGS and that since the establishment of the Corporate Governance Officer Working Group, no major issues on the AGS had been highlighted by the WAO.

On the process for preparation of the AGS, the Head of Legal & Democratic Services highlighted the two key stages for Heads of Service to complete the self-assessment questionnaire within their respective areas and at a later stage to respond to any challenge from the officer group, where appropriate, to justify their self-assessment.

In response to a query from the Chair on delegated powers, the Chief Executive explained that the scheme of delegation was published as part of the Constitution of the Council and spoke of transparency on delegated work on different levels including some where statutory powers were included in job descriptions.

The Democracy & Governance Manager explained that the Constitution contained a section on the Officer Delegation Scheme which applied to the Chief Executive, Directors, Heads of Service and operational managers. This section was due for review as part of an overall programme of work on the Constitution being carried out by the Constitution Committee.

Mr. Paul Williams asked if the AGS questionnaires from Overview & Scrutiny Chairs to be returned in February 2014 could be shared with the Committee. The Head of Legal & Democratic Services pointed out that as the Committee was not due to meet around that time, information would be shared by email and that this would include where the officer group challenged the officer self-assessment.

On section 4.8 of the Code of Corporate Governance, Mr. Williams commented on the fourth bullet point relating to the Committee's role in assuring itself of the Council's budgetary control systems and said that the Committee should ascertain how to fulfil this requirement. Following discussion on this at the briefing meeting, the Head of Finance said it was intended to submit a report to the meeting in June 2014 to explain the budget setting process to aid the Committee in its work, leading up to the finalising of the Statement of Accounts.

Councillor Ian Roberts referred to discussion at a previous meeting on the Council's banking arrangements and asked when the tendering of bank services was due to commence. The Head of Finance would respond in the New Year as the team responsible were currently in the early stages of preparation. As previously agreed, it was the intention to share the draft information with the Committee and ensure that Councillor Roberts was kept informed of progress.

In relation to the previous agenda item, Councillor Bateman asked if information could be provided on the overdraft facility. The Head of Finance would ask the Finance Manager - Technical Accountancy to respond.

During discussion on whether to seek responses from Overview & Scrutiny Chairs on the AGS questionnaire, Councillor Glyn Banks suggested involvement from all Overview & Scrutiny Members to obtain a broader response. The Democracy & Governance Manager remarked on available resources to collate responses from the questionnaire and said that Chairs were able to involve their Committee Members if they wished. Councillor Newhouse spoke in favour of this.

RESOLVED:

- (a) That the updated Code of Corporate Governance shown in Appendix 2 to the report be agreed;
- (b) That the process for preparation of the Annual Governance Statement as shown in Appendix 3 to the report be endorsed; and
- (c) That the questionnaire to be sent to Overview & Scrutiny Chairs shown in Appendix 4 to the report be agreed.

60. INFORMAL MEETING BETWEEN AUDIT COMMITTEE MEMBERS AND OVERVIEW & SCRUTINY CHAIRS/VICE CHAIRS

The Democracy & Governance Manager introduced a report on the second informal briefing meeting between Audit Committee members and Overview & Scrutiny Chairs/Vice-Chairs held on 7 October 2013. Notes of both the first and second meetings were appended to the report showing actions arising. An action to consider changing the size of the Audit Committee membership was to be considered under the next item.

The Chair thanked Mr. Paul Williams for his involvement in promoting greater interaction between the Committee and Overview & Scrutiny.

The Chief Executive spoke of refinements to performance reporting to incorporate findings from Internal Audit reports. The Internal Audit Manager said that despite having sought views from Overview & Scrutiny Chairs on the content of this information, no responses had been forthcoming. Following similar consultation on a suggestion made by Mr. Williams on the non-implementation of recommendations, only Councillor Ellis had responded. He suggested that this could be raised at the next informal meeting.

Councillor Tim Newhouse referred to the consultation which had been carried out by email and spoke of a problem in receiving some emails. The Chief Executive agreed to liaise with the Head of ICT & Customer Services on this.

Councillor Ian Roberts referred to the rescheduling of one of the meetings due to the cancellation of another meeting. Whilst accepting the need for a degree of flexibility in the Council's diary of scheduled meetings, he raised

concerns about the movement of some dates, particularly for Members who were in employment.

The Chair suggested that Members raise any issues arising from the rescheduling of meetings with the Democracy & Governance Manager.

As a point of accuracy, Councillor Glyn Banks pointed out that Mr. Williams had been listed with the councillors on the minutes of one of the informal meetings.

RESOLVED:

That the report be noted and actions endorsed.

61. SIZE OF AUDIT COMMITTEE

The Head of Legal & Democratic Services presented a report to consider whether to increase the number of Audit Committee members, following discussion at informal meetings between Audit Committee and Overview & Scrutiny Chairs/Vice-Chairs. In giving an overview of the key considerations of the report, he explained that it might not be possible to achieve the aim of all groups being represented because their existence and membership could be subject to change and fluctuation. He added that the recommendation in the report should indicate that the Committee's view be recommended to the Constitution Committee before seeking approval at full Council.

Councillor Ian Roberts felt it was important that if it was agreed for another lay member to be appointed, that the advertisement seek applicants with substantial experience of audit in the private sector.

Councillor Tim Newhouse proposed that the membership be extended to eight councillors and one lay member, which was seconded by Councillor Roberts.

In response to a query by Councillor Glyn Banks on whether this would affect the political balance on other committees within the Council, the Head of Legal & Democratic Services confirmed that the proposal was acceptable and asked if anyone wished to table an amendment.

Councillor Roberts withdrew his support for the proposal and suggested that committee sizes be discussed fully at the Council's Annual Meeting in May 2014 after consideration by Group Leaders.

Councillor Newhouse proposed an amendment that the membership be changed to eight or nine councillors and one lay member to allow all political parties to be represented. As this was not formally seconded, he suggested that the matter be referred to the Constitution Committee rather than full Council.

The Chief Executive advised that the membership could be reviewed at any point in time to ensure that there was a sufficient range of expertise, whereas it was important for the Committee to consider what outcomes were required to

fulfil its function. He also advised that the AGM would be the most appropriate time for the Council to consider the size of the Committee.

The Chair's proposal for the matter to be referred to the Constitution Committee with the recommendation for one lay member was seconded by Councillor Roberts. On being put to the vote, this was carried.

Councillor Newhouse's further amendment for the Constitution Committee to explore options for the Audit Committee membership to comprise seven, eight or nine councillors was not supported.

RESOLVED:

That the size of the Audit Committee be referred to the Constitution Committee with the preference for one lay member to be included, for recommendations to be made to the AGM.

62. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented the update report on progress of the Internal Audit department. He advised that changes had been made to the Audit Plan, however the annual audit opinion could still be provided. Progress against the Plan would be monitored closely between now and the end of the financial year. Deferred audits would be considered for inclusion in the next year's Plan during consultation with Directors and corporate teams.

The Internal Audit Manager spoke of changes in the process of delivering audits to achieve greater efficiency, aided by the completion of pre-audit questionnaires used in scoping work and a debrief meeting at the draft audit report stage which should speed up production of final reports by 20+ days. Use of the new Audit Report Monitoring System used to issue draft reports and track recommendations had commenced and would enable monitoring by Directors and Corporate Heads. Members were reminded that final reports were available on request from the Internal Audit Manager who advised that the changes made to the tracking of recommendations had resulted in an improved level of responses. On performance indicators, he explained that the timing of issuing client satisfaction questionnaires near the end of the quarter meant that the target had not been achieved. Although there had been an improvement in the days for departments to return draft reports, the Chief Executive felt that the target of 20 days could be reduced.

The Head of Finance pointed out that details on recommendations awaiting implementation were appended to the report and was pleased to note a reduction in the number. The Chair agreed with her suggestion that this information could be cross-referenced in future reports. The Chief Executive said it should be noted that some recommendations may be in the process of implementation but not yet completed at the time of reporting.

In response to a comment from Mr. Paul Williams on the number of 'other' types of audit shown on the Plan, the Internal Audit Manager explained that this work was based on discussions with management during work carried out on the Audit Plan and that such requests were welcomed by the department. Following

a suggestion, he agreed that on future reports, audits which were deferred, deleted or added would be categorised with the appropriate definition.

In welcoming the improvement in the number of days taken to return draft reports, Councillor Tim Newhouse asked if reports would be finalised in the event of no response from the respective Head. The Internal Audit Manager stated that this has not yet occurred and that the procedure for a final memo to be issued 2-3 days after agreement on the intended response would serve as a reminder.

The Internal Audit Manager responded to a number of queries on investigations. In response to a query from Mr. Williams on a new referral which had arisen from a data-matching exercise 'sweep' carried out by the National Fraud Initiative, the Head of Finance explained that work was in progress to establish why this had not been identified earlier and that she would report back on the outcome.

RESOLVED:

That the report be noted.

63. FORWARD WORK PROGRAMME

The Forward Work Programme for the next year was appended to the report for consideration by the Committee.

Following earlier discussion, Councillor Tim Newhouse suggested that the report on the tendering of banking services be brought to the next meeting in January 2014. The Chair spoke in support of this.

RESOLVED:

That the Forward Work Programme be approved, with the inclusion of the report on tendering of banking services included for the meeting on 29 January 2014.

64. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There was one member of the press in attendance.

(The meeting started at 10.15 am and ended at 1.20 pm)

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Chair