

**AUDIT COMMITTEE**  
**25 JUNE 2014**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 25 June 2014

**PRESENT:**

Councillors: Glyn Banks, Haydn Bateman, Alison Halford, Tim Newhouse, Ian Roberts and Arnold Woolley

**LAY MEMBER:** Mr. Paul Williams

**SUBSTITUTES:** Councillor: Ian Dunbar (for Alan Diskin)

**APOLOGY:** Chief Executive

**ALSO PRESENT:** Leader of the Council

**IN ATTENDANCE:**

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

Revenues & Benefits Manager (for minute number 6)

Corporate Finance Manager (for minute number 7)

Policy & Performance Manager (for minute numbers 8-10)

Ms. Amanda Hughes, Mr. Paul Goodlad and Mr. John Herniman of Wales Audit Office

**1. SUBSTITUTION**

Prior to the start of the meeting, agreement was sought to allow the substitution of Councillor Ian Dunbar for Councillor Alan Diskin. It was confirmed that Councillor Dunbar had undertaken the necessary training.

**RESOLVED:**

That Councillor Ian Dunbar be permitted as a substitute for the meeting.

**2. APPOINTMENT OF CHAIR**

In line with the restrictions imposed under the Local Government (Wales) Measure 2011, the Head of Legal & Democratic Services sought nominations for a Chair of the Committee.

Councillor Haydn Bateman's nomination for Councillor Alison Halford was not seconded.

Councillor Ian Roberts' proposal that Councillor Tim Newhouse be appointed Chair was duly seconded. On being put to the vote, this was carried.

No further nominations were received.

**RESOLVED:**

That Councillor Tim Newhouse be appointed Chairman of the Audit Committee.

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

**3. APPOINTMENT OF VICE-CHAIR**

Councillor Ian Roberts' proposal that Mr. Paul Williams be appointed Vice-Chair of the Committee was duly seconded.

Mr. Williams explained the likelihood that his own workload commitments may impact on his role on the Committee. His acceptance of the role of Vice-Chair was on the basis of this understanding.

No further nominations were received and on being put to the vote, Mr. Williams was elected Vice-Chair.

The Chairman thanked Councillor Alison Halford, as the former Chair of the Audit Committee and also for her previous chairmanship of the Planning & Development Control Committee.

**RESOLVED:**

That Mr. Paul Williams be appointed Vice-Chair of the Audit Committee.

**4. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)**

No declarations of interest were made.

**5. MINUTES**

The minutes of the meeting of the Committee held on 7 May 2014 were submitted.

**RESOLVED:**

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

**6. IMPLEMENTATION OF A RISK BASED VERIFICATION POLICY**

The Revenues & Benefits Manager introduced the report to seek views on the proposed Risk Based Verification (RBV) Policy for the administration of Housing Benefit.

The aim of the Policy was to improve the verification process of benefit claims and ease the administration burden. A successful pilot had resulted in all Councils being invited to adopt the RBV approach which had been approved by the Department of Work & Pensions (DWP). The RBV software allowed claims to be input through the Civica system and assessed through a matrix which

identified potential cases of fraud/error and calculated a predicted risk status of Green (low), Amber (medium) or Red (high). DWP guidelines had identified risk groups as 52% Green, 27% Amber and 21% Red. Claims in the Green group would benefit from an estimated 10% reduction in processing time, however assurance was given that claimants in the Red group would still be required to provide all current verification evidence with confirmation of details provided verbally, preferably by telephone or alternatively face to face. The initial cost and annual maintenance charges for implementation of the system were reported, noting that a reduction in postage costs and employee time would amount to an estimated annual £30K saving from 2015/16.

In response to questions from Councillor Ian Dunbar, the Revenues & Benefits Manager explained that the RBV process would enable claims to be processed quicker to benefit claimants and reduce the time for landlords to receive their payments. The system was intended to speed up operations safely to benefit all concerned and had been proven to work effectively during a pilot. When asked about alternative options to addressing maintenance costs detailed in the report, it was stressed that the Wales Audit Office (WAO) would need to be assured of safety levels and may call in question any deviation from the DWP approved process.

Whilst Councillor Arnold Woolley welcomed this simplified approach, he asked about contractual liabilities for the Civica software. The Revenues & Benefits Manager replied that a six month cancellation clause was available within the 12 month contract.

In response to a query from Councillor Glyn Banks, the Revenues & Benefits Manager stated that no increase in fraudulent claims had been reported by the three Councils participating in the pilot. When asked about the potential for monthly reporting as part of the annual maintenance costs, it was advised that reports would be made available on the percentages of high, medium and low risk claims.

Councillor Haydn Bateman sought clarification on the propensity model which defined the profiles of risk groups. The Revenues & Benefits Manager said that exact information was not known as this was confidential, however the model had been based on extensive historical data provided by the DWP and this approved model would help to safeguard the Council's subsidy.

### **RESOLVED:**

That the proposed Risk Based Verification Policy be supported.

## **7. BUDGET SETTING & BUDGETARY CONTROL ARRANGEMENTS**

The Corporate Finance Manager introduced a report with information on the Council's budget setting and budgetary control systems to assist the Committee in fulfilling those responsibilities it had in relation to the Council's financial affairs. The report had been brought to provide clarity in this area, in response to previous discussion at the Committee.

The report set out the role of the Committee on financial matters as set out in its Terms of Reference, in comparison to that of Overview & Scrutiny and County Council. It was noted that Overview & Scrutiny Committees had a role in scrutinising the use and value for money of expenditure in services and making recommendations to Cabinet on areas within their remit. The Corporate Finance Manager gave an overview of the budget setting process including consultation on detailed proposals with Overview & Scrutiny Committees at the end of each year prior to final budget setting by 11 March. He referred to regular budget monitoring reports submitted to Overview & Scrutiny Committees and explained that officer responsibilities for budgetary control, monitoring and reporting were set out in the Financial Procedure Rules which were reviewed by the Audit Committee.

Mr. Paul Williams welcomed the report and asked the Wales Audit Office (WAO) colleagues present for their views on what the Committee could do further to gain assurance on budgetary control systems and whether the Overview & Scrutiny Members on the Committee were satisfied with the system in place. Mr. John Herniman of WAO said that the Committee must satisfy itself that the process was effective and suggested that assurance could be sought through the Overview & Scrutiny function.

As Chairman of the Lifelong Learning Overview & Scrutiny Committee, Councillor Ian Roberts gave his view that the process was effective as Members were consulted on detailed budget proposals and were given the opportunity to make recommendations for endorsement at full Council. The Chairman of the Audit Committee shared this view in respect of the Corporate Resources Overview & Scrutiny Committee.

Councillor Arnold Woolley referred to concerns raised on the auditing of value for money at a recent meeting of the Corporate Resources Overview & Scrutiny Committee. The Head of Legal & Democratic Services said that increasing financial pressures would require the Cabinet to be assured of value for money or undertake more work to seek further efficiencies. Overview & Scrutiny would need to ascertain whether efficiencies could be found elsewhere to protect cuts to services. The Terms of Reference of the Audit Committee included statutory provisions along with a broader role on financial issues, enabling the Committee to seek clarity on value for money work. At the previous meeting, the Chief Executive had agreed to discuss with the Internal Audit Manager a consistent mechanism for checking controls to help Overview & Scrutiny Committees in gaining assurance on value for money and information on this would be brought by the Internal Audit Manager.

The Internal Audit Manager confirmed that following discussion with the Chief Executive, work was underway on the value for money review, taking into account areas of best practice from outside organisations.

Mr. Herniman said that the Annual Governance Statement was a key document for the Committee in relation to assuring effective arrangements including budgetary controls, and that scrutiny of budget setting on services should remain under the remit of Overview & Scrutiny.

Mr. Williams suggested that it may be useful for the Corporate Finance Manager's report to be shared with Overview & Scrutiny Committees and for them to feed back to the Audit Committee on their satisfaction with the systems in place. The Head of Legal & Democratic Services said that the report could be shared with Overview & Scrutiny Chairs or perhaps more appropriately, through the informal meeting arrangement, together with discussion on exploring the development of value for money reporting.

Mr. Williams felt that a more formal process was needed to receive feedback from the Overview & Scrutiny Chairs.

Councillor Woolley suggested that the Committee may wish to extend consideration of value for money issues to include procurement and tendering, particularly where contractors successful in the tendering process had used sub-contractors on those jobs. No support was forthcoming from the Committee on this suggestion.

The Head of Legal & Democratic Services said that specific concerns on tendering should be brought to the attention of himself, the Internal Audit Manager or Corporate Finance Manager, and gave a reminder that such items could be included on the Audit Plan, although availability of time was limited.

In response to Mr. Williams' suggestion, Councillor Roberts proposed that the Corporate Finance Manager's report be shared with each Overview & Scrutiny Committee meeting to seek their feedback on the effectiveness of budget scrutiny arrangements, rather than just receiving the views of Chairs. This was duly seconded by the Chairman and agreed by the Committee.

Councillor Haydn Bateman referred to the budget monitoring element on identifying variances to determine whether these were likely to be one-off or recurring. The Head of Legal & Democratic Services explained that any underspends were analysed by service managers to establish whether to remove those allocations from the budget. The Audit Committee should be satisfied that this process was working effectively and being monitored by Overview & Scrutiny in respect of one-off underspends and those recurring for future years.

When asked by Mr. Williams how the Audit Committee was able to monitor and challenge this, Mr. Herniman said that analysis of variances were reported and that in preparing the Annual Governance Statement (AGS), the Committee could seek assurance from Overview & Scrutiny Members and decide whether further work was needed.

In response to Mr Williams' suggestion that this could be built into the process for the AGS this year, the Democracy & Governance Manager stated that preparations were at an advanced stage, as discussed informally with the Committee prior to the meeting. Whilst the Committee timetable did not allow sufficient time for feedback to be sought from Overview & Scrutiny Committees prior to submitting the AGS for approval within the deadline this year, this could be addressed for next year's AGS. He added that the informal meeting with Members and questionnaire previously sent to Overview & Scrutiny Chairs responded to the previous request for more Member involvement in the AGS process.

Councillor Glyn Banks said that duplication in workload should be avoided, although it was inevitable that there would be some overlap between the roles of the Audit Committee and Overview & Scrutiny Committees, which should be acceptable if the right outcome was achieved.

On the point raised by Councillor Woolley, Councillor Banks commented on the likelihood of a sub-contracting element in most cases of contract work. Councillor Woolley said that this raised a number of issues such as verification of health and safety, qualifications and performance to ensure delivery of a quality service and value for money.

Ms. Amanda Hughes of WAO said that in preparation for next year's Annual Governance Statement, the Committee may wish to have assurances on procurement and value for money along with assurances on budgetary control.

**RESOLVED:**

- (a) That the report be noted; and
- (b) That the report of the Corporate Finance Manager be submitted to each Overview & Scrutiny Committee to seek feedback on the effectiveness of budget scrutiny arrangements.

**8. ANNUAL IMPROVEMENT REPORT 2013-14 BY THE AUDITOR GENERAL FOR WALES**

The Policy & Performance Manager introduced Mr. Paul Goodlad, Performance Audit Lead of the Wales Audit Office (WAO) and invited him to present the Council's Annual Improvement Report 2013-14 published by the Auditor General for Wales.

Mr. Goodlad echoed comments previously made that this was the most positive Annual Improvement Plan presented to the Council to date, with no new proposals for improvement or statutory recommendations. He said that this reflected the largely positive nature of the report and confidence in the Council's plans for continuous improvement in 2014-15, and that the WAO would continue to work to support the Council throughout the scale of challenges ahead.

It was noted that good progress had been made against the Improvement Priorities and that overall performance against the national indicators had improved. Whilst the Council had taken action to strengthen its approach to performance evaluation, further work was needed to harmonise its improvement planning and performance reporting arrangements, as previously reported to the Committee in the WAO Improvement Assessment Letter of December 2013. However, it was acknowledged that subsequent changes to the 2013/14 Improvement Plan would reflect more positively on performance evaluation later in the year. Following the Auditor General's Letter of September 2013, positive steps had been taken to strengthen arrangements for planning and supporting improvement by linking to the Medium Term Financial Plan (MTFP), with the recognition of further work to be done to tackle the challenges ahead. In response to previous concerns on slippage, such as the delayed implementation

of Single Status, significant progress had been achieved through the delivery of the People Strategy and MTFP. On the Organisational Redesign programme to generate efficiency savings, it was noted that risks had been well managed so far, with significant progress made in a short time period.

The Policy & Performance Manager gave a brief summary of the Council's response which was appended to the report.

In relation to improvements on the MTFP, Mr. Paul Williams asked about the Council's progress in comparison with other Authorities. Mr. Goodlad referred to the changing status of the MTFP and the need for it to take account of the current position and challenges ahead, noting the progress which had been made to track efficiencies.

Mr. John Herniman of WAO said that concerns over recent years had been around progress made on the MTFP process rather than the Plan itself. In noting the progress which had been made, he acknowledged that further work could be done in comparison to some other Councils.

Mr. Williams sought guidance on how the Committee could help to progress this. Mr. Herniman said that this linked with the Annual Governance Statement (AGS) and governance risks and was aware of examples in other Authorities where the Audit Committees had sought clarity from the Cabinet on the process for developing, implementing and reviewing the MTFP including efficiencies tracking and questioning milestones. He added that the Committee should gain assurance from the comments made by WAO in the report as the Council was progressing in the right direction.

The Corporate Finance Manager said that the Cabinet received regular update reports on the MTFP which took into account external advice and best practice.

The Head of Legal & Democratic Services referred to late notification of the Local Government Final Settlement which presented challenges in predicting outcomes within the MTFP. He agreed to liaise with the Chief Executive and Cabinet on the level of information which could be shared with the Committee at this stage of the process, noting that situations would evolve over time.

Mr. Williams emphasised the importance of establishing a process to enable the Committee to monitor progress and timelines on the MTFP.

The Leader of the Council, who was present in the public gallery, agreed it was proper that the Committee understood the process and key milestones within the year.

In relation to paragraph 73 of the Annual Improvement Report, Ms. Amanda Hughes of WAO spoke of the importance of seeking future efficiencies as well as those in-year, and said that this process should be an area of particular focus for the Committee.

Mr. Williams remarked upon the extensive remit of the Committee which was evident through this discussion.

Councillor Glyn Banks pointed out the amount of efficiencies already achieved and offered his congratulations to all concerned, whilst acknowledging the need to sustain this position.

**RESOLVED:**

That the Wales Audit Office Annual Improvement Report and the Council's response be noted.

**9. WAO PERFORMANCE AUDIT REGULATORY PROGRAMME 2014-15**

The Policy & Performance Manager introduced the proposed Regulatory Programme for Performance Audit for the Wales Audit Office (WAO) for the period 2014-15. In welcoming the reduction in fees for performance audit work, the reasons for which were detailed in Appendix 2 to the report, she felt that an element of reduced risk for the Council may have also been a contributing factor.

To explain the difference between the figures quoted in both appendices, Mr. Paul Goodlad of WAO reported a fee of £320,394 for performance and financial audit work in 2014/15, whilst the total audit fee of £373,077 (a reduction of 5.4% since the previous year) included an additional element for auditing the Clwyd Pension Fund and two joint committees for which the Council was the lead. As previously reported, a legislative change meant that the Council would receive a refund of approximately 15% of its 2013/14 audit fee following the re-distribution of reserves.

On the programme of performance audit work, Mr. Goodlad reported on the collation of evidence to support the Corporate Assessment and had regular discussions with the Chief Executive on ongoing work with the Medium Term Financial Plan. He went on to refer to other key issues such as the implementation of the People Strategy which could serve as a useful tool for WAO to link with delivery of performance management and review impact on service delivery, and commented on future streamlining to WAO processes, resulting in a Certificate of Compliance being issued to confirm that statutory requirements had been met by the Council as opposed to more in-depth compliance with Welsh Government guidance work.

**RESOLVED:**

- (a) That the proposed Regulatory Programme for Performance Audit for the Wales Audit Office for the period 2014-15 be noted; and
- (b) That the reduction in fees for the performance and financial audit work programme be noted.

**10. RISK MANAGEMENT UPDATE**

The Policy & Performance Manager introduced an update on the improved risk management approach as part of streamlining and integrating the business planning arrangements and provided an overview of the key risks of the Improvement Priorities of the Council.



The main changes were the elimination of the Strategic Assessment of Risks & Challenges (SARC) document and adoption of the 2013/14 Improvement Plan which was more aligned to the Improvement Priorities. Changes to risks during 2013/14 were indicated in the appendix to the report, with the relevant risk levels allocated as Red, Amber or Green. In line with a request previously made at the Committee, the next report for the Quarter 1 period would include an additional column in the appendix document to indicate the expected date for achieving the target.

**RESOLVED:**

- (a) That the improved risk management approach as part of streamlining and integrating the business planning arrangements to give assurance that the process for risk management is robust, be endorsed; and
- (b) That the summary of strategic risks, as related to the Improvement Priorities of the Council, be noted.

Prior to the next agenda item, the Committee adjourned for a five minute recess.

**11. INTERNAL AUDIT PROGRESS REPORT**

The Internal Audit Manager presented the update report on progress of the Internal Audit department. Previously reported resource issues in the department had led to necessary changes, which had resulted in a delay in the completion of the Audit Plan for 2013/14. However, a qualified Auditor had since been appointed and was due to start the following month.

As reported previously to the Committee, the Audit Plan for 2014/15 would be subject to review with the newly appointed Chief Officers on their respective areas, with the amended version to be submitted to the Committee in September 2014. There may also be potential changes on responsibilities for the non-implementation of recommendations as a result of the restructure.

During a summary of the findings of finalised reports and in response to previous discussion at the Committee, the Internal Audit Manager highlighted the 'value for money' points which had been identified as part of audit work on Town Centre Partnerships. An update on investigations indicated an additional column showing the referral date, in response to a suggestion previously raised.

Councillor Ian Dunbar made reference to the audit on Town Centre Partnerships and raised concerns around the unavailability of the Terms of Reference for the Deeside Forum. The Internal Audit Manager referred to the management comment in the report and stated that the Economic Development Manager was responsible for liaising with each partnership to produce the Terms of Reference. He would check the agreed implementation date in the report and provide confirmation to the Committee.

In response to a question from Councillor Arnold Woolley on the time allocated to an audit on Members' allowances, the Internal Audit Manager said

that this was an initial estimate and could possibly change once the project had been scoped.

The Democracy & Governance Manager explained that this particular audit related to Members' travel and subsistence claims. As previously agreed at the Committee, additional time had been allocated to Data Protection auditing with a reduction to be applied to that for Members' Allowances.

On recommendation tracking, Councillor Woolley referred to an outstanding recommendation for Procurement dating back to 2010. The Internal Audit Manager pointed out that although one recommendation was still outstanding, more recommendations may have been made from the same report and subsequently implemented. In line with the usual procedure, explanation from the Head of Service on the non-implementation had been included in the report.

The Internal Audit Manager responded to various queries raised on the investigations update. The Democracy & Governance Manager reminded the Committee that additional information to the summary within the report could be obtained from the Internal Audit Manager outside the meeting.

**RESOLVED:**

That the report be noted.

**12. INTERNAL AUDIT REPORTING**

The Internal Audit Manager presented the report giving details of the interim reporting arrangements for Internal Audit. He explained the requirement for him to report to both the Audit Committee and the new Chief Officer (Governance) post under the new management structure. As this post had not yet been filled, as an interim measure, he would report directly to the Chief Executive. The Internal Audit Manager said that this arrangement was normal practice and would not impact on audit reports received by the Committee.

Mr. John Herniman of Wales Audit Office said that there was nothing unusual in this arrangement and that the only difference in Local Government was for the statutory role of the Section 151 officer to assume responsibility for ensuring that sufficient and appropriate resources were in place to undertake the Internal Audit function.

**RESOLVED:**

That the interim internal management arrangements for the Internal Audit function be noted.

**13. ACTION TRACKING**

The Internal Audit Manager presented an update report on actions carried out to date from points raised at previous Audit Committee meetings. All actions currently due for completion had been finalised.

**RESOLVED:**

That the report be accepted.

**14. FORWARD WORK PROGRAMME**

The Internal Audit Manager presented the report to consider the Forward Work Programme for the next year.

Following discussion earlier in the meeting, Councillor Woolley requested that a report on underspends be submitted to a future meeting of the Committee. The Internal Audit Manager agreed to include this.

**RESOLVED:**

That the Forward Work Programme be approved with the agreed amendment.

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

There were two members of the press in attendance.

(The meeting started at 10.30 am and ended at 12.43 pm)

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**Chairman**