

AUDIT COMMITTEE
28 JANUARY 2015

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 28 January 2015

PRESENT: Councillor Tim Newhouse (Chairman)

Councillors: Glyn Banks, Haydn Bateman and Alison Halford

APOLOGIES: Mr. Paul Williams and Councillors Alan Diskin, Ian Roberts and Arnold Woolley

IN ATTENDANCE:

Chief Executive, Internal Audit Manager, Democracy & Governance Manager, Corporate Finance Manager and Committee Officer

Mr. John Herniman of Wales Audit Office

Finance Manager - Technical Accountancy (for minute numbers 49-52)

47. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

There were no declarations of interest.

48. MINUTES

The minutes of the meeting of the Committee held on 10 December 2014 were submitted.

Matters Arising

Minute 43: Corporate Governance - the Democracy & Governance Manager advised that the updated Code of Corporate Governance was being submitted for approval to the Constitution Committee meeting later in the day.

RESOLVED:

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

49. AUDIT OF FINANCIAL STATEMENTS 2013/14 - ISSUES RAISED

The Finance Manager - Technical Accountancy introduced the Council's response and action plan to the Wales Audit Office (WAO) report 'Audit of Financial Statements 2013/14' which had been presented to the Committee and full Council in September 2014. The actions being taken in response to the issues raised by WAO would be resolved for the 2014/15 accounts.

Detailed explanation was given on phased work being undertaken to address historical issues on the identification of non-current assets on the register for the 2014/15 accounts. Work on assets classified as Council dwellings

and infrastructure would commence in 2015/16 pending the revaluation of housing stock and the introduction of a different valuation method for infrastructure assets required by the Code of Practice in that financial year. Actions to address the issue of accounting for transactions in the appropriate financial year would be helped by more checking by the Finance department and communicating more widely with budget holders, and the move away from traditional methods to electronic use of information exchange would assist.

In response to a query from Councillor Alison Halford on the appropriate accounting treatment of deposits such as Section 106 monies, the Finance Manager clarified that the issue was around where these transactions were held on the balance sheet. She explained that such a deposit would be linked to planning conditions and would be held on the balance sheet for release over a period of time. There were over 100 such transactions during the period, each to be reviewed during 2014/15 to ensure that all were accounted for correctly.

Mr. John Herniman of WAO said that some deposits could be released to revenue and may not need to be on the balance sheet. He referred to the classification of data on infrastructure which would be resolved through requirements in 2015/16 and that issues previously raised on the identification of assets of vehicles, plant and equipment would need to be resolved for this year's accounts.

The Finance Manager commented on the development of a protocol to set out arrangements for reserves, following a review of all reserves held, in line with the recommendation from WAO.

The Chief Executive said that the completion of the review would help in drawing on reserves to support the budget and future years' budget planning. He referred to the work on reviewing reserves which had been explained in a letter to the Welsh Government, to be shared with Overview & Scrutiny Members, and that the use of reserves would have a higher profile within the Medium Term Financial Plan.

In confirming that there was no issue with the level of reserves, Mr. Herniman referred to pressure on all Councils on the careful use of reserves, given that they could only be used once and the need to ensure transparency.

The Chief Executive said that the outcome of the review would reaffirm that the Council's reserves were generally allocated for specific purposes without large unallocated sums.

RESOLVED:

That the report and action plan be noted.

50. ANNUAL AUDIT LETTER

Mr. John Herniman introduced the Annual Audit Letter from the Council's Appointed Auditor, Wales Audit Office (WAO) which summarised the key findings from the (unqualified) audit opinion on the financial statements for 2013/14, in line with statutory requirements.

Mr. Herniman welcomed the good response from the Council to issues arising from the report, and in particular the achievement in significantly reducing the budget gap. He referred to improvements made to the budget-setting process and delivery of savings, with a continuation of this pressure in future years.

Following a query from Councillor Glyn Banks on the recognition of liability for pension contributions on Equal Pay liabilities, the Finance Manager - Technical Accountancy explained that this had been a long-standing issue over the past few years on which the Council and WAO had reached agreement on their differing views. Mr. Herniman explained that whilst some Councils had agreed with the legal advice obtained by WAO, some had not. A view had been taken by the Appointed Auditor not to take further action but to accept that those Councils had acted in accordance with their own legal advice.

RESOLVED:

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

51. TREASURY MANAGEMENT STRATEGY 2015/16 AND TREASURY MANAGEMENT UPDATE 2014/15

The Finance Manager - Technical Accountancy introduced the draft Treasury Management Strategy 2015/16 for review prior to recommendation to Cabinet, and provided an update on matters relating to the Council's 2014/15 Treasury Management Strategy up to the end of December 2014.

In line with the usual practice to assist in the approval of the Strategy for 2015/16, all Council Members had been invited to attend a Treasury Management training session giving the opportunity to receive detailed information on the changes to the Strategy and to raise any queries with the Council's Treasury Management advisors, Arlingclose Ltd.

In presenting the draft Strategy for 2015/16, the Finance Manager drew particular attention to sections on local context and treasury management implications from exiting the Housing Revenue Account (HRA) Subsidy system. In addition, there were alterations to the table on investments criteria and limits due to legislative changes reforming procedures were a financial institution to get into financial difficulties, known as 'bail-in', as discussed at the previous meeting and training session. The Borrowing Strategy would change from the previous year. Borrowing would be required in 2015/16, however more certainty would be required from spending plans as the year goes on to determine the exact amounts and to ensure the Council borrows in the most cost-effective way.

During an update on treasury management activity in 2014/15, the Finance Manager anticipated a move to smaller investment amounts spread across an increasing number of counterparties.

Councillor Haydn Bateman thanked officers for the report and for the recent training session. In response to a query, the Finance Manager provided

clarity on the impact of 'bail-in' legislation which had been reflected in the training presentation slides.

When asked by Councillor Glyn Banks about borrowing limits, it was explained that the graph shown in the report was based on predictions and was therefore subject to change through monitoring during the year. Whilst there was a statutory need for the Council to set itself a maximum borrowing limit in line with its plans, 2015/16 limits were higher than 2014/15 as confirmation was awaited on the settlement payment from the HRA subsidy reform.

In response to a question on the timing of borrowing, the Finance Manager said that the approach in 2015/16 would be to wait until the investment balance dropped and there was a need to borrow. However, borrowing would need to be done at the appropriate time, when interest rates were low, and when it was certain it was needed and capital plans confirmed. The forecast from Arlingclose Ltd predicted a rise in interest rates in August 2015 and it would not be recommended to borrow at the present time as this would mean borrowing for investment purposes at higher borrowing interest cost than return generated on the investments.

Following queries from Councillor Bateman on the investment balance, the Finance Manager explained about work on reserves which informed cashflow forecasting to give an indication of when to invest. She went on to talk about the timing of long-term investments based on the predictions for interest rate movement with the priority for security first, then liquidity and finally yield.

RESOLVED:

- (a) That the draft Treasury Management Strategy 2015/16 be recommended to Cabinet on 17 February 2015; and
- (b) That the Treasury Management 2014/15 quarterly update be noted.

52. COUNCIL BANKING ARRANGEMENTS

The Corporate Finance Manager introduced an update on the award of the contract to provide the Council's banking arrangements, following the expiry of the previous contract with Nat West in May 2014. Due to delays in the tendering exercise carried out by Eastern Shires Purchasing Organisation (ESPO), it had been agreed that services with Nat West would continue on a monthly rolling basis until the new contract could be put in place.

The Finance Manager - Technical Accountancy gave an overview of the tendering process conducted through the ESPO framework, as detailed in the report, which had resulted in two banks opting out of the process. Following thorough evaluation, the contract had been awarded to Nat West with the inclusion of key elements, offering the Council a more efficient and modern bank service at reduced costs.

Councillor Glyn Banks thanked the officers for the report and successful conclusion, and in particular the agreement to a partnership arrangement with the Post Office network.

RESOLVED:

That the report be noted.

53. ANTI-FRAUD AND CORRUPTION STRATEGY AND FRAUD RESPONSE PLAN

The Internal Audit Manager presented the updated Corporate Anti-Fraud & Corruption Strategy and Fraud & Irregularity Response Plan, both of which were to be submitted for approval to a future meeting of the Constitution Committee and publicised to Members and officers through a new e-learning facility.

In response to a question from Councillor Haydn Bateman, the Internal Audit Manager advised that the update included provision for annual reporting to the Committee on performance against the Strategy.

Councillor Alison Halford spoke about the impact of naming those found to be engaging in fraudulent activity acting as a deterrent to others. When asked for progress on the waste investigation, the Internal Audit Manager referred to the update given by the Chief Executive at the previous meeting and reiterated the commitment to share a report with the Committee once the disciplinary processes had been completed. Councillor Halford expressed her disappointment at the length of time taken and that this particular case had not yet reached a resolution.

The Chief Executive confirmed that there was no further update to share as the final case was still proceeding. In respect of Councillor Halford's initial comments, he spoke about the difficulties in naming those involved in any disciplinary action. Any case involving the Police which proceeded to court was reported in the press and individuals named. Following comments from Councillor Halford about the need to ensure that justice was not undermined, Councillor Glyn Banks said he felt that the correct procedure was being used and that the naming of individuals was not necessary as this was beyond the remit of the Committee. Councillor Halford stated that the Committee had a responsibility to ensure that the system was working correctly and repeated her concerns around the length of time for the ongoing disciplinary case.

The Democracy & Governance Manager said that a response could not be given as those present were not equipped with all the facts surrounding the delay for which there may be a good reason, hence it would be wrong to assume there may be a fault in the process. Councillor Halford also asked for confirmation of whether the individuals under the disciplinary process were in receipt of full pay whilst suspended, which would be at a cost to the Council. The Democracy & Governance Manager noted that this detail was requested.

As a general point on the report, the Chief Executive advised the Committee that early notification was always given to the Internal Audit Manager on cases of suspected fraud or malpractice to determine the level of involvement, if any, by the Internal Audit team.

The Internal Audit Manager reminded Members that there was a difference between instances of fraud and disciplinary cases, however one could lead to the other.

RESOLVED:

- (a) That the updated Corporate Anti-Fraud & Corruption Strategy be agreed;
- (b) That the updated Fraud Response Plan be agreed; and
- (c) That explanation on the reasons for the length of time taken to complete the disciplinary process on the waste investigation be emailed to the Committee, including confirmation of whether the individuals were in receipt of full pay whilst suspended.

54. EXTERNAL REGULATORS AND INSPECTIONS REPORTS

The Democracy & Governance Manager presented the Committee with the second annual report detailing reports by external auditors, other regulators and inspectors, pursuant to guidance under Section 85 of the Local Government (Wales) Measure. As previously agreed, the report included detail on other committees in receipt of such reports and arrangements had been put in place to ensure that the records were monitored by the Policy & Performance Team. In giving an overview of the content of the report, the Democracy & Governance Manager said he hoped that this provided assurance of the proper mechanism and monitoring that was in place.

The Chief Executive reminded Members of the protocol in operation at Flintshire for regulatory reports to be received by the Committee, Cabinet and Overview & Scrutiny, together with the practice for a written response as good practice and to demonstrate transparency.

Mr. John Herniman of Wales Audit Office spoke positively about the report and the approach being taken by the Council on this matter.

Councillor Alison Halford expressed her appreciation to the Democracy & Governance Manager and to the Policy & Performance Team.

RESOLVED:

That the process for dealing with reports by external auditors, other regulators and inspectors during 2014 be noted.

55. ACTION TRACKING

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

RESOLVED:

That the report be accepted.

56. FORWARD WORK PROGRAMME

The Internal Audit Manager presented the report to consider the Forward Work Programme for the next year. He advised that self-assessment questionnaires were due to be sent out and urged Members and officers to return these promptly, in preparation for discussion on this item at the next meeting.

Councillor Alison Halford commented on the Community Asset Transfer initiative and the need for clarity on the costs of assets to assist in decision-making of Town and Community Councils.

In acknowledging the point made, the Chief Executive explained that whilst costs could be determined for assets that were wholly-owned by the Council, there was limited information on other assets which could involve more complex issues. Discussions were currently taking place on such examples to explore options for limiting the risk of liability to Town and Community Councils who may be interested in assuming ownership/management of assets. This was a learning process and therefore not timely as a current agenda item, however a clearer picture of progress on the initiative was more likely by the summer.

RESOLVED:

That the Forward Work Programme be noted.

57. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There was one member of the press in attendance.

(The meeting started at 10.00 am and ended at 11.07 am)

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Chairman