

AUDIT COMMITTEE
21 NOVEMBER 2018

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 21 November 2018

PRESENT: Councillor Helen Brown (Chair)

Councillors: Geoff Collett, Chris Dolphin, Andy Dunbobbin, Andrew Holgate and Paul Johnson

Co-opted member: Sally Ellis

SUBSTITUTE: Councillor: Mike Peers (for Arnold Woolley)

APOLOGY: Corporate Finance Manager

ALSO PRESENT: Councillors Patrick Heesom and Billy Mullin attended as observers

IN ATTENDANCE:

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

Corporate Business & Communications Executive Officer (for minute number 31)

Chief Officer, Housing and Assets (for minute number 32)

Interim Finance Manager (Technical Accountancy) (for minute number 33)

Clwyd Pension Fund Manager and Pensions Finance Manager (for minute number 35)

Senior Manager, Human Resources & Organisational Development, Employment Services Manager and Senior Auditor (for minute number 36)

Wales Audit Office representatives
Matthew Edwards and Gwilym Bury

28. SUBSTITUTION

In accordance with Constitutional requirements, the Committee agreed to allow Councillor Mike Peers to substitute for Councillor Arnold Woolley. It was confirmed that Councillor Peers had undertaken the necessary audit training.

RESOLVED:

That Councillor Mike Peers be permitted as a substitute for the meeting.

29. DECLARATIONS OF INTEREST

The Chair, Councillors Holgate and Johnson, and Sally Ellis all declared a personal interest on agenda item 8 as members of the Clwyd Pension Fund.

On agenda item 9, the Chair and Sally Ellis declared a personal interest due to links with Penarlag CP School and Mold Alun School respectively.

30. MINUTES

The minutes of the meeting held on 18 October 2018 were submitted. Councillor Dunbobbin asked that his apologies be recorded.

RESOLVED:

That subject to the amendment, the minutes be approved as a correct record and signed by the Chair.

31. ANNUAL IMPROVEMENT REPORT OF THE AUDITOR GENERAL FOR WALES

Gwilym Bury presented the Annual Improvement Report by the Wales Audit Office (WAO) which summarised the audit and regulatory work undertaken at the Council since the last report published in September 2017. The report, which made no formal recommendations, concluded that the Council was meeting its statutory requirements in relation to continuous improvement.

The Chief Executive acknowledged the four new voluntary proposals for improvement which could improve the effectiveness of the Overview & Scrutiny function. Whilst work was underway on those suggestions, the Council was also undertaking a self-assessment of overall corporate performance which could be used to assist the WAO in the next Annual Improvement Report.

Councillor Johnson commented on the challenge of achieving continued improvement in light of reduced funding. The Chief Executive said that the resilience statements for each service portfolio, shared during the budget process, had identified the risks of making further budget cuts beyond those already set out. He said that self-improvement remained an ongoing objective as demonstrated by the Council's track record.

Sally Ellis referred to the national report recommendations some of which related to areas of 'red' reports for Flintshire. The Internal Audit Manager confirmed that all the areas would be addressed as part of the Internal Audit programme of work.

The Chief Executive said that although there was no requirement to respond to national report recommendations, the Council's approach was to take these into consideration to identify any learning to further strengthen existing arrangements.

The Corporate Business & Communications Executive Officer said that the annual report on external inspections, scheduled for the next meeting, would give assurance to the Committee that national as well as local reports were being noted.

Councillor Johnson thanked officers for the positive meeting of the Audit and Scrutiny Liaison Committee which had recently taken place.

RESOLVED:

That the Committee is assured by the Auditor General for Wales' Annual Improvement Report for 2017/18.

32. ASSET DISPOSAL AND CAPITAL RECEIPTS GENERATED 2017/18

The Chief Officer (Housing and Assets) presented the annual report summarising land disposals and realisation of capital receipts during 2017/18. Capital receipts were aligned to contribute towards the Council's programme of capital schemes, consisting of both large and small scale across all portfolios. A reminder was given of the revenue implications from capital expenditure and the reduction in Welsh Government support for capital expenditure as set out in the report.

Councillor Peers asked for a cost breakdown of the list of asset disposals as it did not appear to include a particular site. The Chief Officer explained that the disposal in question had not been received in full as it was based on phased delivery, and that the information had been summarised to observe commercial sensitivity. Councillor Peers sought information on the full value of that item and how much the Council would benefit from the phased approach. The Chief Executive said that a private briefing paper would be shared with the Committee.

Sally Ellis recalled discussion on the report in 2017 on the need to regularly review the criteria for identifying potential capital receipts, particularly given the importance of maximising support for capital schemes. The Chief Officer said that the findings of reviews undertaken across portfolios were currently being considered to assess the suitability of sites for disposal or investment, depending on market forces in those areas. This included reviews of industrial estates whilst agricultural estates were subject to continual review.

Following the information shared, it was agreed that the update report on criteria provisionally scheduled for January was no longer required.

The Chief Executive said that projected capital receipts supporting the Capital Programme would form part of the refresh of the Medium Term Financial Strategy early in the New Year.

The Chief Officer said that this would also be reflected in the Capital Strategy which was due to be updated.

RESOLVED:

That the report be noted.

33. TREASURY MANAGEMENT MID-YEAR REVIEW 2018/19 AND QUARTER 2 UPDATE

The Interim Finance Manager (Technical Accountancy) presented the draft Treasury Management mid-year report for 2018/19 prior to consideration by Cabinet. An update on Quarter 2 was shared for information.

A summary of the key points highlighted the increase in the Bank of England base rate and forthcoming regulatory changes. There were no changes to the long-term borrowing position, and short-term borrowing was undertaken in line with the strategy. A different approach to the way that Money Market Funds were defined would reduce the risk on those investments.

An update on Quarter 2 set out the current position on treasury management activities, with a breakdown of investments and borrowing appended. As part of the Council's strategy, a Treasury Management training session for all Members had been arranged for 29 January 2019.

Councillor Peers queried the £6.4m of interest payable on borrowing shown in paragraph 5.04. The Interim Finance Manager explained that this reflected the mid-year position and that the majority of payments reflected historic borrowing decisions. Reviews were undertaken with the treasury management advisors taking account of market conditions at that time. Most of the loans were maturity payments which were re-financed when due for repayment.

Councillor Peers said it was important to understand the cost to the Council. The Chief Executive said that this was a complex subject. He said that the degree of scrutiny on borrowing was now much more robust and transparent, and that any exit strategy for any borrowing commitments must be sensitive to market conditions.

In response to questions from Councillor Johnson, clarification was given on the types of organisations with whom the Council invested and the change to EU Market Reform which further reduced the risk of investing with Money Market Funds. During discussion on the potential impact from Brexit, it was explained that there was no effect on current borrowing as the uncertainty was around future markets. The handout shared with Council in October had outlined potential risks to the Council and officers were contributing to national work on sharing risk and practice.

RESOLVED:

That the draft Treasury Management Mid-Year Report 2018/19 be recommended to Cabinet on 18 December 2018.

34. USE OF CONSULTANTS

The Chief Executive presented a report on the annual review of consultancy spend to ensure accuracy of figures on the general ledger and compliance with the agreed processes.

Sally Ellis asked about the post-assignment reviews for consultancy business cases in 2017/18 and was advised that these would be undertaken once those projects had concluded. Reviews for consultancy engagements in 2016/17 had been completed.

RESOLVED:

That the Committee is assured that expenditure on consultants is being controlled and the Council is achieving value for money.

35. CLWYD PENSION FUND GOVERNANCE

The Clwyd Pension Fund Manager presented a report to give assurance on governance arrangements of the Clwyd Pension Fund (CPF) and the value for money of fund manager fees, as requested at the previous meeting.

The diagram in the report illustrated the current governance structure which had been broadened over time to meet requirements. It was explained that fees determined by the investment consultant on the Advisory Panel were then subject to agreement by the CPF Committee, with oversight provided by the statutory Pension Board. Whilst each authority determined its own strategy, implementation was through the Wales Pension Partnership which provided the platform for pooling investments across the 8 Local Government Pension Scheme (LGPS) funds in Wales.

The Chief Executive gave assurance that both he and the Corporate Finance Manager supported governance arrangements and that there was external evaluation on governance and performance. Due to the complexities of the subject matter, a high level of training and support was given to the CPF Committee to undertake its role for most of the decision-making on the management of the Fund. The Chief Executive reported that the treasury management investment side of the CPF was performing well and that there was steady improvement on the administration side.

On the approach to fee management, the CPF Manager spoke about the level of skill required by investment consultants and key decision-making on various factors to achieve the right balance of risk and meet future needs. The Actuary review determined both the cost that employers needed to pay for the future benefits of members and any deficit payments for past service, which the investment consultant then considered how best to deliver.

The Chief Executive said that the CPF had adopted a high-risk appetite with proven success and was hopeful that cost pressures on employer contributions would be managed.

In thanking officers for the report, Sally Ellis asked how the Audit Committee could add value and whether training would assist. The Chief Executive and Chief Officer said that the Committee's role was to satisfy itself with the level of knowledge and support given to the CPF Committee and challenge by the Pensions Board.

Following a query by Councillor Johnson on the list of investment consultants, officers agreed to circulate a copy of the annual report containing this information. Clarification was also given on contract arrangements.

On the list of fund management fees, Councillor Peers referred to the rate of return for credit assets which was below target. Officers explained the aim to diversify across different asset classes and the role of the three specialist sub-groups in supporting the Advisory Panel.

Following earlier discussion, Sally Ellis said that in order for the Committee to be assured, information would be needed on the level of confidence/knowledge on the CPF Committee and whether the oversight by the Pension Board was working well.

The Pensions Finance Manager said that regular detailed reports to the CPF Committee containing governance information, minutes, training plans, etc, were all available on the Council's website.

The Chief Executive and Chief Officer said that officers would consider the frequency of reporting and the possibility of a future presentation on governance arrangements to give further assurance to the Committee, without duplicating the work of the Pensions Board.

RESOLVED:

That the report be noted and feedback provided to the Clwyd Pension Fund Committee.

36. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented the update on progress of the Internal Audit department including changes to the audit plan, action tracking and investigations. As requested at the recent facilitation workshop, an overview of audit assurances was now included within this report.

Since June 2018, three 'Amber Red' or 'Some' assurance opinions had been issued for Pension Administration, the Joint Corporate Procurement Unit and Payroll. Due to concerns from the Chair and Vice-Chair about outstanding actions on the latter, the Senior Manager, Human Resources & Organisational Development and Employment Services Manager were in attendance to provide a further update.

The Senior Manager gave assurance that good progress had been made on the actions since the report was produced. She explained that many of the actions consisted of multiple elements of which most had been completed and that the

Payroll team had allowed for a period of testing to satisfy themselves that actions were robust and effective, before formally signing off. She went on to report on further improvements achieved by consolidating databases into one.

Sally Ellis explained that the concerns had arisen from some issues outstanding from the 2016/17 audit, particularly those with financial implications, and that it would be helpful for the Committee to be notified of completion dates. The Employment Services Manager advised that the two which remained outstanding related to documented procedures and performance indicators. Good progress had been made on both and the due date had been extended until the end of March 2019 to ensure that outcomes were acceptable for the next audit.

The Chief Executive spoke about significant workload implications in Payroll to deal with changes in recent years. He said that officers would agree on realistic completion dates and advise the Chair and Vice-Chair accordingly.

During the period, one 'Red' or 'Limited' assurance opinion had been issued for General Data Protection Regulations (GDPR). The audit had been undertaken in March 2018 in preparation for implementing the new regulations in May. The Senior Auditor summarised the aim of the new regulations on which compliance had been addressed through five work-streams. She gave assurance that implementation across the Council had been prioritised by Chief Officers and Senior Managers, with progress underway on action plans for each portfolio. A range of positive actions had been taken including the appointment of a dedicated Compliance Officer and the key role of the Information Governance team, together with extensive training and communications to the workforce. The overall audit opinion reflected the uncertainty in relying on third party suppliers to give assurance that their systems complied with GDPR.

The Chief Officer (Governance) provided an update on actions to address each of the audit findings, as set out in the separate report on the agenda. On the capability of externally provided software systems holding personal data to meet the obligations of GDPR, 61 were now either fully compliant or in the process of doing so, whilst work was continuing on the remaining seven which were viewed as low risk. Good progress was also reported on the review of forms to clarify the use of personal data.

The Chief Executive spoke about the valuable contribution of the audit work in making significant progress to meet the scale of the GDPR regulations.

The Internal Audit Manager advised that the audit had also been beneficial in helping to identify potential efficiencies which could be explored in the future.

Councillor Peers raised a concern over the security of Members' payslips placed in pigeonholes in Member Services, particularly outside working hours. The Chief Officer said that whilst other options had been explored, the current practice of posting out sealed printed payslips was more cost-effective. During discussion, he suggested that Members sharing the concerns may prefer to collect their payslips in person from the officers in Member Services.

In summarising the remaining sections of the progress report, the Internal Audit Manager explained that to reduce duplication on action tracking updates, those which were overdue and over six months were shown in Appendix G. A separate update would be included in the next progress report on those actions which were not overdue but had a longer period since the original due date.

Councillor Dolphin questioned the level of capacity at Flintshire Connects centres to cope with demand, particularly during lunchtime periods. The Chief Executive said it was not possible to comment on the example given on that particular day and that any concerns should be raised with the Chief Officer (Governance) for follow-up if required. In response to concerns on Planning Enforcement, he suggested that any performance issues be referred to the Environment Overview & Scrutiny Committee. He agreed to pursue an update on progress with the final version of the legal agreement for the Greenfield Valley Trust.

The Internal Audit Manager advised that the report reflected the priority ratings issued at the time of the audit and would remain unchanged during the action tracking process.

On Planning Enforcement, Councillor Peers said it was important for the audit to keep track of referral dates and not allow them to reach the expiry date when they could be written off. In acknowledging the issues, the Chief Executive agreed to liaise with the Planning team and schedule an update report for the Committee.

The Chair asked that this topic also be considered by the newly formed Audit and Scrutiny Liaison Committee.

On the Operational Plan 2018/19, the Internal Audit Manager highlighted changes including the deferral of work on two areas where there was no current requirement.

The Chief Executive spoke about an increase in demand for advisory work by the Internal Audit team which was proving to be of value, as demonstrated in the testing of Method Statements on recent budget reports.

RESOLVED:

- (a) That the report be accepted; and
- (b) That Members are assured that the remedial actions identified on GDPR have and will, if implemented, address the control weaknesses identified.

37. AUDIT COMMITTEE SELF-ASSESSMENT

The Internal Audit Manager presented the report on the results of the self-assessment undertaken by the Committee in September 2018 during a facilitation workshop. The overall results of the self-assessment were positive and would feed into preparation of the Annual Governance Statement for 2018/19. Good progress was reported on the action plan.

Councillor Johnson expressed his appreciation to officers for the positive workshop.

RESOLVED:

That the Committee notes the results and progress on actions.

38. AUDIT COMMITTEE TERMS OF REFERENCE AND CHARTER

The Internal Audit Manager presented the report seeking agreement on changes made to the Audit Committee Terms of Reference to reflect the current working practice and new area of responsibility. Views were also sought on the draft Audit Committee Charter which had been developed to document the role of the Committee within the Council's Governance framework and co-ordination between the Committee and Overview & Scrutiny. Both documents were due to be considered by the Constitution and Democratic Services Committee.

RESOLVED:

- (a) That the changes to the Terms of Reference be approved; and
- (b) That the Audit Committee Charter be approved.

39. ACTION TRACKING

The Internal Audit Manager presented the progress update report on actions arising from previous meetings. As a further update, she advised that the Anti-Fraud and Corruption Strategy had been scheduled for the January meeting.

RESOLVED:

That the report be accepted.

40. FORWARD WORK PROGRAMME

The Internal Audit Manager presented the current Forward Work Programme for consideration, noting earlier agreement that the item on Asset Disposals and Capital Receipts would be removed from the January meeting.

When asked by Councillor Johnson about an item on strategic risks, the Internal Audit Manager advised that this would form part of the Risk Management Update due in January. The Chief Officer referred to discussion at the recent Audit and Scrutiny Liaison Committee which linked to work on risk management and the risk register.

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.

41. 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 12.10pm

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Chair