

AUDIT COMMITTEE
17 JULY 2012

Minutes of the meeting of the Audit Committee of Flintshire County Council held at Clwyd Committee Room, County Hall, Mold CH7 6NA on Tuesday, 17 July 2012

PRESENT: Councillor Alison Halford (Chair)

Councillors Glyn Banks, Haydn Bateman, Alan Diskin, Richard Jones, Ian Roberts and Arnold Woolley

LAY MEMBER: Mr Paul Williams

ALSO PRESENT: Councillors Bernie Attridge and Aaron Shotton

IN ATTENDANCE: Chief Executive, Head of Finance, Internal Audit Manager, Democracy & Governance Manager, Corporate Finance Manager, Finance Manager (Strategy & Technical) and Committee Officer

Head of Corporate & Capital Accounting (minute number 17)

Funds Manager (minute number 17)

Mr. Huw Lloyd Jones of Wales Audit Office

15. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATION)

No declarations of interest were made.

16. MINUTES

The minutes of the meeting of the Committee held on 25 June 2012 were submitted.

Matters Arising

The Chief Executive said that following discussion with officers, it had been agreed to report positively on actions recorded in the minutes at the next meeting if the item was not otherwise included on the agenda.

Minute 6: Certification of Grant Claims and Returns 2010/11 - The Internal Audit Manager reported on new procedures now in place to improve the process and ensure the completion of the grants checklist for each return. The Chief Executive commented on the level of performance reported at the previous meeting and explained the improvements made to the use of grants database and the countersigning of grant returns by specified senior Finance managers following application of the checklist. He added that full compliance was expected in the next grant claim certification 'round'.

Minute 7: Report on Internal Audit - The Internal Audit Manager advised that a plan would be required to meet requirements for the current year and that he and the Head of Finance would discuss with the Chief Executive. He

confirmed that, as in previous years, only non-essential items would be deferred from the plan and that resources in Internal Audit were sufficient to cover essential audit work.

Minute 9: Treasury Management Annual Report 2011/12 and 2012/13 Update - In response to Councillor G.H. Bateman's request for an update on the proposed investment at the rate of 3%, the Head of Finance advised that this had not yet been progressed and that discussions were ongoing with Treasury Management colleagues. She went on to say that officers continued to make judgements on the financial market and confirmed that the Treasury Management Policy set out parameters in which officers could make decisions on investments, which applied in this instance.

Minute 10: Final Reports and Performance Indicators - Following concern on the late implementation date of April 2013 for a Traffic Management issue, it was explained that this date represented when all outstanding issues were to be resolved in that area, however a high proportion of schemes would be finalised in the coming months which meant a high level of compliance ahead of the implementation date.

Minute 11: Operational Audit Plan and Recommendation Tracking - It was explained that suppliers were categorised using the Thomson Classification system which enabled the Procurement Unit to analyse the use of suppliers in more detail. The Internal Audit Manager agreed to circulate to the Committee the set of interim procedures for monitoring consultants which were in use prior to updating of the Contract Procedure Rules in October 2012. The current system involved the completion of a form stating the reason for the appointment of the consultant, objectives and outcomes together with a business case and budget information, to be signed off by the Head of Service who would be responsible for monitoring. The Chief Executive explained this was a more centralised system to ensure that the engagement of consultants was 'signed' off at second tier officer level to ensure consistency.

The Internal Audit Manager had emailed Committee Members responding to other queries raised at the previous meeting. Following discussion on Equifax, he confirmed there was ongoing monitoring of contractors on the Council's approved list, explaining that this was now undertaken by a different company, Credit Safe, who would give notification of any significant changes in the financial performance of contractors. On receipt of such information, the Council would check the contractor's rating against criteria and if this was not met, the company would be informed of their removal from the approved list.

Mr. P.D. Williams said that his comments about the need to look at fundamental areas of high risk had been endorsed by Mr. P. Green of RSM Tenon at the meeting.

Councillor R.B. Jones sought clarity on "significant changes in financial performance" and said that criteria needed to be described. He also referred to Mr. Williams' comment on traffic management as a risk area and said that the level of risk should be balanced against speedier actions. The Internal Audit Manager agreed to provide a separate response on the first comment. He accepted the latter point but added that risk areas were theoretical and that the

transfer of a significant proportion of schemes in the section to a new system would improve matters.

Councillor I.B. Roberts reiterated his comments on use of the Amber status in the Red, Amber, Green (RAG) system. Whilst the Chief Executive recognised the limitations of the system, he explained that this was a colour scheme to aid review and risk assurance. He suggested that the system could be reviewed and refined, with consideration given to the impact on other areas of risk management, with proposals brought back to the Committee at a later date.

On performance indicators, Councillor Jones referred to the last quarterly review considered by Corporate Resources Overview & Scrutiny Committee which indicated 'improved/downturn' to show the direction of the outturn. Councillor A. Woolley suggested that a split box could be used, with one half stating the current position and the other half showing the indicator.

Having met with the Vice-Chair and Internal Audit Manager to discuss queries raised at the previous meeting, the Chair said that further concerns raised by the Vice-Chair on appraisals would be pursued with the Chief Executive.

RESOLVED:

- (a) That the minutes be approved as a correct record and signed by the Chairman;
- (b) That the Internal Audit Manager circulate to the Committee the interim procedures on the monitoring of consultants;
- (c) That the Internal Audit Manager provide clarification on any 'significant changes in financial performance' of companies reported by Credit Safe; and
- (d) That the Red, Amber, Green (RAG) status be reviewed for refinements and proposals brought back to the Committee at a future meeting.

17. DRAFT STATEMENT OF ACCOUNTS 2011/12

The Head of Finance introduced a report to present the Statement of Accounts 2011/12 (subject to audit) for Members' information only at this stage. The accounts would come back to the Committee in late September for approval and recommendation to County Council following the audit. She said that this had been the culmination of work across the whole of the organisation and referred to challenges due to changes in regulations. At today's meeting, the Wales Audit Office (WAO) was represented by Huw Lloyd Jones whose remit related to performance assessment; however the work on the financial audit would be led by Amanda Hughes and colleagues who had already started on the audit work.

The Corporate Finance Manager and Finance Manager (Strategy & Technical) delivered a presentation which detailed the main points:

- Purpose and Background
- Key Dates
- Responsibility
- Contents and Overview
- Links to budget monitoring
- Headlines
- Core Statements
- Next Steps
- Questions

The Finance Manager (Strategy & Technical) said that in line with previous practice, drop-in sessions for Members would be arranged for early September 2012 and she reported on the links between the pages of the accounts and changes in the Code of Practice.

The Head of Finance said that officers had endeavoured to link the regulatory nature of presenting the accounts in accordance with legislation with strategic internal budget monitoring and final budget monitoring reporting to make the information as useful as possible for members. She referred to a new note on exit packages and explained that reports were regularly received by Cabinet and Overview & Scrutiny on retirements and redundancies dealt with under the Council's policies.

Mr. Huw Lloyd Jones of WAO gave information on his role as manager for performance audits across the six North Wales Authorities, with Karen Lees the contact for Flintshire. He also reported on the performance audit work mentioned on the WAO Regulatory Programme which aimed to ensure that the Council was providing value for money. The Chief Executive explained that Mr Lloyd Jones had replaced Mr Stephen Martin who had previously attended meetings of the Committee.

Councillor R.B. Jones referred to the underspend figure on page 2 of the draft accounts which, when reported to the Corporate Resources Overview & Scrutiny Committee, had been split to show an underspend of £1.287M from Directorate services and £1.548M from Corporate Finance. He also queried why the joint arrangements listed on page 69 did not include the Regional School Effectiveness & Improvement Service and Regional Commissioning Hub. On the first question, the Corporate Finance Manager explained that the figure in the draft accounts was in respect of the Central Loans and Investment Account only and agreed to provide Councillor Jones with a reconciliation of the figure contained within the final outturn monitoring report. On joint arrangements, he explained that this was a timing issue as the report had stated the Council's position at 31 March 2012. The Chief Executive commented on the current status of transition of the two collaborative projects which would be included in the following year's accounts.

In response to further queries by Councillor Jones on the revaluation of assets and depreciation of land, the Head of Corporate & Capital Accounting explained that the figure of £817,877 shown on page 4 included investment properties and agricultural estates which were separated on the balance sheet on page 9. On the second query, he stated that land did not depreciate and that it was only the buildings included under the standard asset category heading,

'other land and buildings' on page 15 (such as schools and County Hall) that were subject to a depreciation charge. The Chair asked for further clarity of wording such as this in future reports and this was noted by officers.

Councillor G.H. Bateman raised concerns at the drop in land values on page 4 and queried the increase in values shown on page 9 for vehicles, plant, furniture and equipment and surplus assets. The Chief Executive commented on the difference between revaluation and depreciation. The Head of Corporate & Capital Accounting explained that the comment under 'Critical Judgments in Applying Accounting Policies' on page 12 covered a significant part of the reduced value of assets. On the second query, Councillor Bateman noted that further details were included in the notes on page 41. The Head of Corporate & Capital Accounting explained that finance lease arrangements for refurbishment works at Deeside Leisure Centre had resulted in increased values, as indicated on pages 4 and 50. The Head of Corporate & Capital Accounting pointed out the movement in figures for 'Assets held for sale' shown on the balance sheet and said that at each financial year end, the list of assets likely to be disposed during the following year would be reviewed and any unlikely to be sold would be moved to 'surplus assets'.

Mr. P.D. Williams suggested a change to the heading of 'Current Provisions - Accumulated Absences' on page 54 and asked about accumulated holiday pay. The Finance Manager (Strategy & Technical) spoke about changes to accounting arrangements that required the Council to account for benefits earned by employees but not yet taken. Figures were based on a sample of employees to reflect the population at the balance sheet date, 31 March 2012, the majority of which is the calculated value of annual leave earned but not yet taken. The council operates an annual leave policy that runs from 1 April to the 31 March and allows 5 days leave to be carried forward. This is the majority of the accounting adjustment. The Chief Executive said that the Council had made representations against the new arrangements during consultation and stressed that it was only on exceptional occasions where annual leave had to be bought back from employees or that employees were allowed to carry forward more than five days' annual leave to the following year.

In response to a further question from Mr. Williams on actions to address the increase in rent arrears on page 73, the Chief Executive said that this had been subject to full scrutiny by committees with local press coverage and that further details would be shared with Mr. Williams.

The Chair sought an update on the liquidation of AD Waste and further information on Clwyd Theatr Cymru (CTC) mentioned on pages 55/56. The Corporate Finance Manager reported that the accounts of AD Waste had been closed for 2011/12 on the same basis as that of 2010/11 and that he and the Head of Finance would provide a written update. The Chief Executive explained that CTC was an asset owned by the Council, with 40% core funding from the Council and 60% core funding from the Arts Council for Wales (ACW). The Theatr had an annual turnover of £5.5M but had reported a small operating deficit which was planned to be recovered in 2012/2013. The Chair asked about the cost to the Council if the Theatr was to cease trading. The Chief Executive replied that he was unable to provide a costing but said there would be significant closing and redundancy costs and that the Council could not be assured of ACW

sharing any liability. He stated that the Council had chosen to maintain its commitment to the Theatr in past years and that, unless directed otherwise, he and others would continue to make it a trading success.

Councillor I.B. Roberts commented that the WAO had previously made reference to the governance arrangements of the Theatr. He went on to remark that such an operating deficit would not be allowed at schools but accepted the assurance that this would be recovered, asking when a report on the Theatr would be received at full Council. The Chief Executive said that following a review at his instigation, governance of the Theatr had now been improved including annual reporting of its business plan.

Councillor Roberts expressed concern about the position of the Council in supporting the Theatr as a production company, which he said represented a unique arrangement in Wales. In replying, the Chief Executive said that the Theatr was not a high risk on a performance level.

The Chair spoke of her personal support for the Theatr and questioned whether any further information should be pursued via the Committee, Overview & Scrutiny or Cabinet. Following a comment on funding, Councillor Roberts remarked on a current study funded jointly by the Council and ACW which would be brought back to the Council.

In response to further comments by Councillor Roberts on reporting and the need for Lifelong Learning Overview & Scrutiny Committee to include consideration of CTC in its remit, the Chief Executive said that in addition to regular reports to Cabinet, the Theatr would also be subject to discussion at the ACW Partnership Committee in September 2012. On the latter point, the Democracy & Governance Manager confirmed that a report was to be received at the next Constitution Committee meeting to consider a change to Overview & Scrutiny Committees' Terms of Reference in consideration of CTC.

Following a query by Councillor Bateman on the figures for long-term debtors on the balance sheet, the Head of Corporate & Capital Accounting pointed out that note 25 in the accounts provided detail and a breakdown of figures. The Chief Executive highlighted the increased cost for renewal and improvement loans due to changes in the Housing Renewal Policy. The Head of Finance went on to explain that this was indicative of the Council's work on housing to assist first time buyers or enabling homeowners to upgrade their homes in accordance with Council policy. Councillor Bateman commented on the amount of £100,000 available for this and the Chief Executive explained that this was a new scheme with only a part year commitment which would increase over time and that Housing Overview & Scrutiny Committee had received detail on the implementation of the scheme. The Head of Finance spoke of the limited resources available to work with Tai Clwyd on the scheme and that a phased approach was being taken to help ensure success.

The Chair thanked Members for their questions and the Head of Finance and her team for their explanation on some complex areas and for the work on the accounts.

The Chief Executive also extended his appreciation to the Finance team for completing the accounts within the required deadline, particularly in respect of additional accounting requirements for the North Wales Regional Waste Treatment Partnership.

RESOLVED:

- (a) That the draft Statement of Accounts 2011/12 (including the Annual Governance Statement), together with the underlying policies, be noted; and
- (b) That the planned provision of 'Drop-in' sessions over the summer period, subject to Members' consideration at Audit Committee, be noted.

18. ANNUAL GOVERNANCE STATEMENT

The Democracy & Governance Manager introduced a report for the Committee to review and approve the Annual Governance Statement (AGS), which was included as pages 105-119 of the Statement of Accounts.

It was explained that the AGS had in previous years been considered as part of the Statement of Accounts but that a recommendation had been made to consider this as a separate item. The Democracy & Governance Manager reported on the officer working group set up to prepare the AGS with involvement from Heads of Service in new corporate governance self-assessment arrangements as part of the process.

Councillor R.B. Jones suggested that the five sections of the AGS be clearly indicated at the start of the document and that the first sentence under the Section 2 include reference to the involvement of employees and other resources. On the Governance Framework of the AGS, Councillor Jones referred to the importance of the Council's Priorities and Vision which he felt should be included under Business Planning. The Chief Executive explained that once published, the AGS would be a matter of record whereas the Council's Priorities would be reviewed and updated. The first two suggestions made by Councillor Jones were noted by officers and agreed by the Committee.

RESOLVED:

That the Annual Governance Statement attached to the Statement of Accounts be approved subject to two amendments:

- (i) To clearly indicate at the start the five sections; and
- (ii) The first sentence under Section 2 to be amended to reflect the involvement of staff and other resources.

19. **STATUTORY GUIDANCE ON THE LOCAL GOVERNMENT (WALES) MEASURE 2011**

The Democracy & Governance Manager introduced a report on the recently issued statutory guidance insofar as it related to the work of the Committee.

He reported on the outcome of the Council's representations when consulted on the draft Welsh Government (WG) guidance which had been previously considered by the Committee. He advised that some of the points made by the Council had been taken on board and others had been partly addressed. He confirmed that the appointment of Mr. P.D. Williams as the lay member on the Committee meant that the Council was compliant with the terms of the Measure and the statutory guidance.

Councillor R.B. Jones commented on the over-prescription of issues in the WG guidance and said that changes to Article 7(d) of the Constitution relating to scrutiny of the Council's financial affairs was not an accurate reflection of the Audit Committee's role as this was under the remit of the Corporate Resources Overview & Scrutiny Committee. The Democracy & Governance Manager reiterated that the Council had made representations for local choice rather than treating all 22 Welsh Councils in the same way and this had led to some clarification by WG as stated in the report. On financial affairs of the Council, the Chief Executive accepted that there would be a degree of duplication and said that if Members felt that financial performance was an issue of risk to the Council, then the Corporate Resources Overview & Scrutiny Committee could be asked to undertake some work on this and that the Audit Committee would provide a 'check and balance'.

Councillor Jones said that value for money was a key issue for the Audit Committee. Mr. Huw Lloyd Jones of Wales Audit Office (WAO) agreed that this was a valid point and spoke of the WAO's support of the Council fulfilling objectives. The Chief Executive suggested it would be appropriate for the Medium Term Financial Plan to incorporate how the Council would ensure value for money and that where work was done for the Audit Committee, follow-up questions could be sought to demonstrate value for money.

Mr. P.D. Williams referred to the final sentence of paragraph 3.06 of the report and asked how the Committee would seek assurance that the budgetary control systems were working and whether Overview & Scrutiny committees were audited on their effectiveness.

The Head of Finance explained that under current arrangements, financial systems/processes were subject to work by Internal Audit on the Audit Plan and consideration by the Audit Committee. She suggested that in response to the comments made by the Chief Executive, a report could be brought back to the Committee in the Autumn following discussion with the Chair and Vice-Chair. The Chief Executive spoke of possible involvement by Overview & Scrutiny to address any questions on the overseeing of budget reports. He and the Democracy & Governance Manager explained that it was not for Audit Committee to audit the effectiveness of Overview & Scrutiny.

Mr Huw Lloyd Jones said that the WAO monitored the work of Overview & Scrutiny and that an improvement study to be undertaken across Councils later in the year would lead to a national report and feedback, with a summary report on this to be provided by WAO in due course. In response to comments on value for money, he suggested that the best way forward would be for him to discuss with the Chief Executive and Head of Finance.

RESOLVED:

That the provisions in the statutory guidance relating to Audit Committees be noted.

20. WAO REGULATORY PROGRAMME

The Head of Finance introduced a report on the proposed Regulatory Programme for Performance Audit for the Wales Audit Office (WAO) for the period April 2012 to March 2013.

The Chief Executive explained that the Programme related to the performance side of annual work undertaken by the WAO and that the Programme assessed the overall effective governance performance alongside national studies. The Programme had been agreed by the Council and WAO with involvement by the Internal Audit Manager. The Chief Executive added that he and other senior officers had no objections to the WAO report.

Mr. Huw Lloyd Jones of WAO drew attention to paragraph 6 of the report which indicated work on the annual Improvement Assessment of the Council's compliance with the 2009 Measure. This included assessing the likelihood of the Council's arrangements to secure continuous improvement and would be informed by national studies on all Councils in Wales to influence policies at national level and practices at local level. He added that Mr. Stephen Martin had previously indicated that an annual full assessment of Councils' arrangements would be carried out, although it had since been agreed that this would take place every four years. For the current year, an assessment would be made on the extent to which Councils had followed proposals previously made by WAO. He detailed the WAO performance work planned for 2012-13 shown in Appendix 1 to the report and fees in Appendix 4 which had been reduced from the previous year to achieve consistency across Wales.

In response to a query by the Chair, the Head of Finance said that VAT costs could be reclaimed by the Council.

For the benefit of new Members of the Committee, the Chair suggested that explanation be given on how self-assessment could be done. Mr. Lloyd Jones spoke about the increasing reliance on self-assessment by Councils across Wales and the need for this to be done prior to Estyn inspections. He stated the view of the WAO that mature Councils were able to robustly reflect on their own performance which in turn affected work undertaken by WAO. He highlighted the availability of CIPFA and Solace guidance on the Annual Government Statement with the emphasis on this being evidence based and engaging with as many people as possible on the process. The discussion earlier

in the meeting indicated that the Council's process for the preparation of the Annual Governance Statement was more advanced than most.

The Chief Executive spoke of his involvement in national work and said there was a growing expectation that self-assessment would increase at the expense of external regulation. The Council's track record of self-assessment had been measured very highly by external regulators and it was intended to undertake a further assessment over the next 6-8 months with possible involvement by Audit. Further details of this would be available at a later stage.

RESOLVED:

That the proposed Regulatory Programme for Performance Audit of the Wales Audit Office for the period April 2012 to March 2013 be received and accepted.

21. REPORT FORMAT

The Internal Audit Manager introduced a report to present the proposed new format for the Internal Audit progress report.

Following previous discussion on changes to the format and content of reports, the Internal Audit Manager presented an example single report comprising five sections to replace the two reports previously received for 'Operational Plan and Recommendation Tracking' and 'Final Reports and Performance Indicators'. He explained that the example report contained information submitted to the previous meeting of the Committee and sought Members' views on the new layout. He added that this would be subject to change and that he had received comments from some Members prior to the meeting.

On the reporting of final audit reports, Councillor R.B. Jones said that comments on the findings had improved but felt that the 'manager responsible' column should be reinstated.

Mr P.D. Williams shared this view and also suggested that comments from auditors be included to show whether the management comments were acceptable or still outstanding.

Following a query by the Chair on the type of audit identified on the Operational Plan, the Internal Audit Manager explained that 'advisory' meant that the audit had come out of the planning meetings with Directors and Heads of Service. Councillor Jones suggested that the type of audit could be defined in the document and that column titles should be repeated where the table continued on to the next page. The Chief Executive said that a 'risk' type indicated a requirement for the audit to be done and that 'advisory' had been undertaken on request.

On Recommendation Tracking, Mr. Williams said it would be useful to include the issue date and proposed implementation date to show the timeline. The Internal Audit Manager explained that this would be difficult as the date of the final report could include several recommendations, each with a different implementation date. A column and footnote indicating auditors' comments on

areas of concern arising from non-implementation would be included to provide a stronger steer for the Committee to look at. In response to a further comment by Councillor Jones on the inclusion of reference numbers of reports, the Internal Audit Manager agreed that these would be reinstated.

The Head of Finance welcomed the improvements made to future reports and thanked the Internal Audit Manager and the Committee for their joint efforts in achieving this.

The Chair suggested that the recommendation in the report be amended to reflect further ongoing review of reports and the Internal Audit Manager said that Members' comments received to date would be taken on board.

RESOLVED:

That the new format and level of information provided in the report be accepted subject to further ongoing review.

22. MEMBERS OF THE PRESS AND PUBLIC IN ATTENDANCE

There was one member of the press in attendance.

(The meeting started at 10.00 am and ended at 12.35 pm)

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Chair