

**AUDIT COMMITTEE**  
**29 JANUARY 2020**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 29 January 2020

**PRESENT: Councillor Chris Dolphin (Chairman)**

Councillors: Janet Axworthy, Geoff Collett, Andy Dunbobbin, Paul Johnson and Arnold Woolley

Co-opted members: Sally Ellis and Allan Rainford

**ALSO PRESENT:** Councillor Glyn Banks (Cabinet Member for Finance) was present as an observer

**IN ATTENDANCE:**

Councillor Billy Mullin (Cabinet Member for Corporate Management and Assets), Chief Executive, Internal Audit Manager, Corporate Finance Manager and Democratic Services Officer

Matthew Edwards and Gwilym Bury of Wales Audit Office

Finance Manager (Technical Accountancy) - minute number 52

**50. DECLARATIONS OF INTEREST**

None.

**51. MINUTES**

The minutes of the meeting held on 20 November 2019 were approved, as moved by Councillor Woolley and seconded by Councillor Johnson.

**RESOLVED:**

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

**52. TREASURY MANAGEMENT STRATEGY 2020/21 AND TREASURY MANAGEMENT QUARTER 3 UPDATE 2019/20**

The Finance Manager (Technical Accountancy) presented the draft Treasury Management Strategy 2020/21 for review and recommendation to Cabinet. In preparation for the Strategy to be adopted by County Council in February, all Members had been invited to a training session in December 2019. Also presented for information was the quarterly update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2019/20.

There were no changes to the overarching Treasury Management Policy Statement for 2020/21 and only minor changes had been made to the Treasury Management Practices and Schedules. The report summarised sections of

interest from the Strategy which been covered as part of the training session. As a result of updated investment guidance issued by Welsh Government (WG), the definition of investments in the Strategy had been widened to include non-Treasury Management investments such as loans and non-financial yield bearing investments. Flintshire's approach to this additional requirement was to append the non-Treasury Management investments to the Strategy.

As part of the Treasury Management update in Quarter 3 of 2019/20, an inaccuracy was noted on the total annual interest of Public Works Loans Board (PWLB) Fixed Rate Equal Instalment of Principal Loans on the long-term borrowing analysis.

In response to a question from Councillor Collett on the impact of inflation on future borrowing requirements, the Finance Manager said that the forecast was guided by the Capital Programme where some schemes ran over a number of years would have a fixed contract price. She said there were no concerns about the impact of inflation on the rolling programme of investment.

Sally Ellis asked about oversight on additional work to meet the new requirements from WG. The Finance Manager spoke about the challenges in complying with disclosures around skills, culture and climate change across the Council, particularly on treasury management investments where security and liquidity were prioritised. Detailed discussion would take place with Chief Officers to agree the approach which would be reported back to the Audit Committee towards the end of the calendar year.

On the additional requirements for responsible ethical investments, the Chief Executive spoke about changing expectations and he drew attention to the reports available on Clwyd Pension Fund Committee agendas.

Sally Ellis asked about preparations for potential borrowing from sources other than the PWLB. The Finance Manager said that the Council's Treasury Management Advisers were comfortable with up to 20% of the portfolio being borrowed on a short-term borrowing basis, allowing sufficient capacity to consider detailed options for long-term borrowing. Whilst PWLB loans remained a viable option, opportunities to borrow from alternative sources such as pension funds or insurance companies would be explored with the treasury management advisors.

Allan Rainford asked about the prudential indicator for the ratio of financing costs to net revenue stream and was advised that the proportions were just below 5% for the Council Fund and below 25% for the Housing Revenue Account. The figures were included in the Capital Strategy, approved by Council the previous day, and would be circulated to the Committee. When asked about adapting to meet the new requirements, the Finance Manager spoke about plans to strengthen training on non-treasury management activities. On investments in foreign countries, the Finance Manager gave assurances of the safeguards and said that the Council could only invest in sterling.

The Chairman referred to the number of councils on the short-term borrowing portfolio and asked for an example where Flintshire was a counterparty

to another council. The Finance Manager agreed to look at sharing a previous example and she explained the approach to short-term borrowing in order to manage the cashflow position at that point in time.

**RESOLVED:**

- (a) That having reviewed the draft Treasury Management Strategy 2020/21, the Committee has no specific issues to be reported to Cabinet on 18 February 2020; and
- (b) That the Treasury Management 2019/20 quarter update be noted.

**53. WALES AUDIT OFFICE (WAO) - ANNUAL AUDIT LETTER 2018/19**

Matthew Edwards of Wales Audit Office (WAO) presented the Annual Audit Letter which set out the key messages arising from the Auditor General for Wales' statutory responsibilities for the financial year 2018/19.

In confirming that the Council had met its responsibilities on financial reporting and use of resources, he said that work would continue with officers on preparations for a dry run of the earlier accounts deadline for 2019/20 in advance of the new statutory deadlines by 2020-21. He also confirmed that the Council had appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources. On the WAO review of the financial sustainability of all councils in Wales, the draft report for Flintshire was due to be submitted to Council in February to take account of the Welsh Government Settlement and to moderate local findings with those across Wales to provide context.

In welcoming the findings, Allan Rainford asked about comparison with other similar sized councils. Matthew Edwards said that the positive working relationship with Council officers was reflected in the effective arrangements for early closure of the accounts. He said that there was an appetite to amend any material errors and referred to discussions on the future approach to misstatements above the reporting threshold. On the financial sustainability review, he would feedback comments on the new model of the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Chief Executive said that the WAO Engagement Director had reflected positively on the Council's financial performance in the previous year and he referred to positive feedback from WAO on the Council's Medium Term Financial Strategy which also provided reassurance.

The Corporate Finance Manager shared details of the self-assessment undertaken by all councils to contribute to the financial sustainability review.

In response to a question from Allan Rainford about the audit fee, Matthew Edwards said that a contingency element had been included for additional work such as that on the McCloud Judgement. When asked about any impact from the anticipated increase in audit fees for councils in England, he said that a report on the WAO Audit Plan for 2020 - scheduled for the next meeting - would include

proposals for the audit fee. Whilst the Auditor General's fees were on the increase due to various pressures, there were various ways of mitigating the impact to councils such as revising the skills mix of WAO teams.

The Chief Executive said that no significant impact was expected and that the Council's approach to risk management could help to influence fees. He spoke about the significant work with actuaries on the Clwyd Pension Fund to prepare and reduce risk on the McCloud Judgement.

**RESOLVED:**

That the Wales Audit Office Annual Audit Letter for 2018/19 be noted.

**54. CODE OF CORPORATE GOVERNANCE**

The Chief Executive presented a report on the annual review of the Code of Corporate Governance. Following extensive revision in 2017, only minor changes had been made for 2019/20.

Councillor Johnson referred to the recent report to Council on the Local Government and Elections (Wales) Bill which included provision for re-naming the Audit Committee as the Governance and Audit Committee. His proposal that the name be changed to better reflect the Committee's role was subsequently withdrawn following discussion, in acknowledging the decision made by Council.

In sharing background to the Welsh Government policy consultation, the Chief Executive explained the aim of the reforms and how this could work effectively within the Council. The Council's response to the consultation sought local discretion on how this applied to the different committee roles within the framework before the Bill was enacted.

In response to Councillor Woolley's question, it was noted that the report would be submitted to the Constitution & Democratic Services Committee to recommend approval of the changes by County Council. It was at that stage that the Constitution would be updated.

**RESOLVED:**

That the updated Code of Corporate Governance be endorsed for adoption as part of the Council's Constitution.

**55. FINANCIAL PROCEDURE RULES**

The Corporate Finance Manager presented the updated Financial Procedure Rules (FPRs) for endorsement and onward submission to the Constitution and Democratic Services Committee for recommendation to County Council. Since the last update in 2018, minor changes had been made to reflect updated procedures and service delivery methods following consultation with relevant service managers and Chief Officers.

In response to comments from Councillor Johnson, the Corporate Finance Manager agreed to strengthen wording in the first sentence of section 4.3 which currently stated that the requirement for an Internal Audit function was 'implied' by the legislation.

In welcoming the increased oversight by the Chief Officer team, Sally Ellis spoke about the need to ensure compliance across the Council. The Corporate Finance Manager said that responsibilities were clear and reinforced through departmental team meetings and corporate sessions as well as specifically targeting areas of high risk or where there had been changes in personnel. Compliance with FPRs was monitored by principal accountants in each portfolio and there were no significant patterns of breaches.

On section 4.1(e) on the admission of liability arising from insurance claims, the Corporate Finance Manager acknowledged Sally's concerns and agreed to revise the wording to encourage employees to seek advice in those situations.

In response to comments from Allan Rainford, clarity was provided on the role of the Corporate Finance Manager as part of the Chief Officer team. This was endorsed by Councillor Mullin who spoke about the valuable advice given to the Cabinet.

#### **RESOLVED:**

That the updated Financial Procedure Rules be endorsed and recommended for submission to Council.

### **56. INTERNAL AUDIT PROGRESS REPORT**

The Internal Audit Manager presented the update on progress of the Internal Audit department.

No red (limited assurance) reports had been issued since the last meeting. Information on the Amber Red (some assurance) opinion on the Corporate Grants Database showed agreed actions to address issues of inconsistent use of the database. On action tracking, a further 14 of the 88 overdue actions had been closed since publication of the report. The Internal Audit Manager referred to the mechanisms in place to remind managers of timely feedback on actions completed which impacted on the statistics. An update was also given on resources in the Internal Audit team as set out in the report.

Sally Ellis highlighted the importance of implementing actions on the Corporate Grants Database in view of the audit work by Wales Audit Office. In noting that the number of live actions may be lower than reported, she sought assurance that those for high priority areas such as School Funds were being implemented. The Internal Audit Manager explained that actions could only be closed down upon receipt of evidence and that follow-up work was scheduled in the Audit Plan. She provided a brief update on some of the completed actions on School Funds and was satisfied with progress to date.

**RESOLVED:**

That the report be accepted.

**57. ACTION TRACKING**

The Internal Audit Manager presented the update report on actions arising from previous meetings. An update on the Health Board's outstanding debt to the Council would be shared with the Committee following the meeting.

**RESOLVED:**

That the report be accepted.

**58. FORWARD WORK PROGRAMME**

The Internal Audit Manager presented the current Forward Work Programme for consideration. In response to the Chairman's concerns, she said that the number of agenda items would be reviewed for the March meeting.

**RESOLVED:**

- (a) That the Forward Work Programme 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.

**59. 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 11.20am

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**Chairman**