

**AUDIT COMMITTEE**  
**15 MARCH 2017**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 15 March 2017

**PRESENT: Mr. Paul Williams (Vice-Chairman in the Chair)**

Councillors: Haydn Bateman, Ian Dunbar, Alison Halford, Ian Roberts and Arnold Woolley

**APOLOGIES:** Councillor Tim Newhouse (Chairman) and the Corporate Finance Manager

**ALSO PRESENT:** Councillor Bernie Attridge

**IN ATTENDANCE:**

Chief Executive; Chief Officer (Governance); Interim Internal Audit Manager; Finance Manager - Technical Accountancy; and Committee Officer

Paul Goodlad, John Herniman and Matthew Edwards of Wales Audit Office

Chief Officer (Education & Youth) and Finance Manager (for minute number 51)

Finance Manager, Strategy Accounting and Systems (for minute number 53)

**49. DECLARATIONS OF INTEREST**

Following advice from the Chief Officer (Governance) on agenda item 4 'School Reserves', a personal interest was declared by Councillors Ian Dunbar, Ian Roberts and Alison Halford as they were school governors. The Chairman also declared a personal interest as his wife worked in a school.

On agenda item 9 'Internal Audit Progress Report', Councillor Dunbar declared a personal interest as he was a governor of Connah's Quay High School mentioned in Appendix D.

**50. MINUTES**

The minutes of the meeting held on 25 January 2017 were submitted.

**Matters Arising**

On minute number 39: Wales Audit Office Annual Audit Letter 2015/16, Councillor Haydn Bateman referred to discussion on former waste disposal sites. In acknowledging the operational risk, it was explained that this was a complex ongoing technical issue which required time to resolve on a site by site basis. A meeting was due to take place to discuss the financial accounting provision. Progress on the operational and accounting issues was being reported to Overview & Scrutiny.

On minute number 42: Implementation of Contract Procedure Rules, Councillor Alison Halford referred to long-standing concerns on the performance of some sub-contractors. Officers explained that contractual arrangements placed a responsibility on contractors to manage the performance of any sub-contractors. During detailed previous discussion on this topic, Members had been assured of the training and support given to officers in respect of their responsibility in challenging any quality management issues.

Councillor Ian Roberts agreed to discuss his concerns about the performance of a particular contractor outside the meeting. When asked by the Chairman if this was a procedural matter, the Chief Officer (Governance) said he was aware of the circumstances of the case and that the Contract Procedure Rules (CPR) contained guidance on the provisions within contracts including enforcement terms.

Councillor Arnold Woolley shared his concerns on instances where work was sub-contracted down in its entirety.

The Chief Executive said that the Committee may wish to look at the quality of contract management in more detail as part of the CPR update at the September 2017 meeting.

**RESOLVED:**

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

**51. SCHOOL RESERVES AS AT MARCH 2016**

The Chief Officer (Education & Youth) and Finance Manager presented a report on financial reserves held by schools in Flintshire as at March 2016.

In the primary sector, school positive balances generally remained stable with pupil numbers increasing due to demographic changes. It would take time for this increase to reach secondary school level where many schools were experiencing difficulties in balancing their budgets. This was indicative of the national position where continuing austerity measures and growing cost pressures were contributing factors. Whilst school budgets were largely predictable through medium-term financial planning, the short-term movement in pupil numbers was a more challenging issue for some schools. The importance of equipping school business managers with the necessary skills had been identified as a key risk and was also recognised at national level. Schools in a deficit position were receiving additional support and training from the Council to develop their deficit recovery plans. The establishment of a multi-disciplinary team providing clear, consistent advice on Human Resources, finance and curriculum planning was also having a significant positive impact on recovery planning.

The Chief Executive said that licensed deficits were amongst a number of financial pressures faced by schools. School balances were being closely monitored by officers alongside the statutory Schools Budget Forum and Education

& Youth Overview & Scrutiny Committee. However, the extent of intervention and support by the Council was limited due to the self-governance model.

Following a query by Councillor Haydn Bateman, it was clarified that deficit balances were carried forward each year by deducting those amounts from the following year's budget share. The importance of planning and timely actions to mitigate risks was emphasised as it was difficult for a school to move out of a deficit position. A deficit could not be written off and stayed with the school until paid off or closure of the school.

When asked by Councillor Alison Halford about greater flexibility to help schools with ongoing balance deficits, officers explained the need to work within the statutory framework and stressed the importance of early recognition of changes in demographics and cost pressures. Approval for a licensed deficit was only granted where a deficit recovery plan set out realistic actions and took account of issues such as curriculum planning, workforce changes and other income streams. On the impact of long-term employee absences, details were shared on protection available through the Council's maternity scheme.

The Chairman referred to the approach to surplus balances and was advised that the regulations specified the limits by which local authorities must intervene. The agreed treatment of surplus balances enabled some flexibility on those above 5%. Schools facing more significant challenges - particularly in the secondary sector where there were more Head Teacher changes - were referred to the School Standards Monitoring Group.

The Chairman spoke about the negative effect on the morale of schools and suggested that performance monitoring could take account of a school's position before it reached a deficit balance. The Chief Officer said that the first target of the recovery plan was to achieve a positive in-year balance.

The Chief Executive suggested that an annual report on school balances would help the Committee to seek assurance of the management of these risks.

As Chairman of the Education and Youth Overview & Scrutiny Committee, Councillor Ian Roberts referred to detailed discussions on surplus balances. He gave examples of various factors such as mis-alignment of the financial year and school year, the larger workforce in secondary schools and the potential for reserves to be accumulated for a specific purchase. He felt that the Council's financial systems were appropriate and that levels of support varied from school to school.

The Chief Executive drew comparison with the Council's approach to reserves and their management for which the same principles applied.

**RESOLVED:**

That the school reserves as at 31 March 2016 be noted.

## **52. PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

The Interim Internal Audit Manager presented the results of the annual assessment of conformance with the Public Sector Internal Audit Standards. The checklist and summary of results indicated general conformance and the Quality and Improvement Plan showed areas requiring further development. The outcome of the external assessment, due to be carried out as a peer review by the Chief Internal Auditor of Ceredigion County Council, would be reported to the next meeting.

### **RESOLVED:**

That the report be noted.

## **53. CERTIFICATION OF GRANTS AND RETURNS 2015/16**

The Finance Manager, Strategy Accounting and Systems introduced the grant claim certification from Wales Audit Office (WAO) for the year ending 31 March 2016. The WAO report recognised a marked improvement in the production and submission of grant claims and made five recommendations for further improvement which were being actioned by the Finance Management team. Of the 13 grant claims certified for the year, the net adjustment of £6,633 was a small proportion of the overall total of £156m and did not result in financial loss to the Council.

Mr. Matthew Edwards of WAO welcomed the good progress made to address previous concerns and said that the recommendations for further enhancement would be followed up as part of the 2016/17 audit work. He drew attention to the key issues for the adjustments including the Bus Service Support Grant which was a new scheme for the Council and required further development of the guidance to help understanding and interpretation.

Councillor Alison Halford sought clarity on issues relating to Communities First. The Finance Manager explained that these were mainly being resolved by ensuring that all service managers were aware of the need to seek written evidence of approvals from Welsh Government (WG) and not relying solely on verbal permission. Councillor Halford also commented on the challenges to the Council arising from late notification by WG on the Bus Service Support Grant. The Chief Executive agreed that the impact had been raised with WG. He went on to advise of a confidential report to Cabinet on Communities First arrangements.

Following comments by the Chairman on recurring issues, Mr. Edwards said that a high level of testing was undertaken. The Chief Executive acknowledged that good progress had been made but expected evidence of further improvement in the report for next year.

The Interim Internal Audit Manager advised that a review of corporate grants was currently in progress.

## **RESOLVED:**

That the content of the Grant Claim Certification for 2015/16 be noted.

### **54. WALES AUDIT OFFICE REPORT ON FINANCIAL RESILIENCE: SAVINGS PLANNING: COUNCIL RESPONSE**

The Chief Executive invited Mr. Paul Goodlad to present the Wales Audit Office (WAO) report on the findings of the review on financial resilience. This would form part of a national summary report combining the results for all 22 Welsh councils. The review concluded that 'the Council has a sound financial planning framework and it continues to strengthen its financial planning to better support future financial resilience.'

Mr. Goodlad said that the majority of savings proposals were found to be well developed and financially robust, but that most of those predicted to underachieve had not been fully costed at the start of the year. The extent of consultation and approval processes had impacted on the pace of some projects, resulting in some slippage to planned savings. The Council expected to achieve 90% of its 2016/17 revised planned savings.

The Chief Executive explained the reporting arrangements for local WAO work under the agreed protocol and drew attention to the extensive executive response to the report approved by Cabinet. In welcoming the positive report, he said that challenges on financial planning were shared by all councils. Although good progress was being made on financial planning for 2018/19, funding solutions to another major funding 'gap' would be a significant challenge for the new Council. He highlighted the Council's proactive approach to the budget process allowing for early consultation and cited the transparency and frequency of reporting on the progress of efficiencies as an example of good practice. As previously recommended by WAO, the Council had adopted key performance indicators on future efficiency targets with the intended aim of achieving a minimum of 95%.

In response to queries from Councillor Alison Halford, explanation was given on the three savings proposals which had been tested by WAO. These included Household Recycling Centres where Overview & Scrutiny debate and public opinion had led to delays in exploring alternative solutions which had resulted in a more positive conclusion. Clarification was given on the regulations and complexities of the regional waste facility, which was a different matter. The Chief Officer (Governance) agreed to provide the Committee with information on the in-house bailiff service.

Councillor Ian Dunbar commended the outcomes for Household Recycling Centres and library relocations, following public support and positive actions taken by the Council.

**RESOLVED:**

That the Committee endorses the Council's response to the proposal for improvement of the Wales Audit Office report on the Council's arrangements for financial savings planning.

**55. TREASURY MANAGEMENT UPDATE 2016/17**

The Finance Manager - Technical Accountancy introduced the quarterly update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2016/17 to the end of February 2017.

The report included a graph showing the movement of investment balances which demonstrated the general trend of a declining cash balance as the Council moved to a position of borrowing to fund the Capital Programme. The approach to test systems through short-term borrowing would continue. In response to previous discussion on debt re-scheduling, detailed explanation was included on the complexities and risks involved. The example shown in the report clarified that it was not considered appropriate at the current time to reschedule loans.

The Finance Manager responded to queries from Councillor Haydn Bateman on cash balance levels and investments with the Debt Management Office.

**RESOLVED:**

That the Treasury Management 2016/17 quarterly update be noted.

**56. INTERNAL AUDIT PROGRESS REPORT**

The Interim Internal Audit Manager presented the update on progress of the Internal Audit department including changes to the audit plan, action tracking, performance indicators and investigations.

On action tracking, the Chief Executive said that many overdue actions involved reasonable explanations and that the adopted process enabled a higher degree of ownership. The Interim Internal Audit Manager reported positive feedback by the Chief Officer team.

In response to queries from Councillor Alison Halford, it was explained that more time was needed to complete the review of policy and procedures for the North East Wales (NEW) Homes, which was still a relatively new company. On Section 106 agreements, the Finance Manager - Technical Accountancy confirmed that the working group had met in February 2017 and were due to meet again next month to make further progress on the actions.

Councillor Haydn Bateman asked about the investigation on the use of grant monies and was advised that that more details would be shared with the Committee once the Police investigation had reached its conclusion.

The Chairman referred to some of the longer term revised due dates on actions by Social Services and sought assurance on the interim management of risks. The Interim Internal Audit Manager agreed to include more detail for all actions with a revised due date as part of the next update report.

**RESOLVED:**

That the report be accepted.

**57. ACTION TRACKING**

The Interim Internal Audit Manager presented the progress update report on actions arising from previous meetings of the Committee. Most had been implemented and the remainder were specified for a later date.

On Greenfield Valley Heritage Park, the Chief Executive confirmed that work was being undertaken with the Trustees on the action plan. An update would be provided at a later stage.

**RESOLVED:**

That the report be accepted.

**58. WALES AUDIT OFFICE (WAO) AUDIT PLAN 2017**

Mr. John Herniman presented the Wales Audit Office (WAO) Audit Plan for 2017 in respect of proposed audit work for the Council and the Clwyd Pension Fund. In highlighting some of the key aspects, he said that WAO officers would support the Finance team in adjusting to new requirements on the prescribed format of the financial statements. The report detailed the legal requirements in respect of performance audit work and the availability of national value for money studies. The report included the timetable for the work for which there was a slight reduction in the estimated fee. Mr. Herniman drew the Committee's attention to the arrangements established to mitigate the risk arising from a threat to the independence of the Audit Manager in relation to work on education.

Councillor Alison Halford referred to the implications of the Well-being of Future Generations (Wales) Act 2015 and commented on the increasing pressures in social care. Mr. Herniman advised that the WAO work would assess the Council's development of its Well-being Objectives against the principles of the Act. Pilot work currently being undertaken would help to develop a proportionate approach to this work whilst adding value.

To meet requirements of the Act, the Chief Executive reported that the Council was on track to publish a Well-being Assessment and adopt a set of Well-being Objectives by the deadline of 1 April 2017.

**RESOLVED:**

That the Wales Audit Office reports be noted.

## **59. INTERNAL AUDIT STRATEGIC PLAN**

The Interim Internal Audit Manager presented the proposed Internal Audit plan for the three year period 2017/18 to 2019/20 and highlighted the key considerations for the Committee. The Plan would inform the annual opinion on the adequacy of the Council's arrangements on risk management, control and corporate governance. Development of the Plan had included consultation with Chief Officers on risks and priorities for their respective areas. The Plan was subject to regular review to ensure a degree of flexibility to respond to organisational changes and audit days would be allocated at the scoping stage of each audit to enable resources to be effectively managed.

Councillor Alison Halford said that the previous practice of holding joint briefings between the Committee and Overview & Scrutiny Chairs had been useful. The Chief Executive suggested that the Committee may wish to pursue this in the new Council.

Councillor Arnold Woolley referred to the three considerations required of the Committee and said that an assurance by the Interim Internal Audit Manager was needed to determine the adequacy of audit resources. The Chairman reaffirmed the commitment previously given that any concerns about capacity would be raised.

The Chief Executive gave a reminder that Internal Audit resources were being maintained at an agreed level and were similar to that in other councils. The Chief Officer (Governance) said that regular assurance was sought and received on the team's capacity to undertake the Audit Plan. The Interim Internal Audit Manager confirmed that she had no concerns about resources to deliver the Plan and that if this was not the case, she would raise this immediately.

When asked for an opinion, Mr. John Herniman of Wales Audit Office clarified that assessment of the Internal Audit team did not form part of their work. In addition to the assurances given on resources, he pointed out the responsibility of the Section 151 officer.

As further assurance to the Committee, the Chairman suggested that the progress report include details of any high priority audits which failed to be completed during the year.

### **RESOLVED:**

That the Flintshire Internal Audit Strategic Plan 2017-2020 be approved.

## **60. FORWARD WORK PROGRAMME**

In presenting the current Forward Work Programme for consideration, the Interim Internal Audit Manager said that an annual report on school balances would be included, as agreed earlier in the meeting.



**RESOLVED:**

- (a) That the Forward Work Programme be accepted; and
- (b) That the Interim 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.

**61. AUDIT COMMITTEE SELF-ASSESSMENT**

The Interim Internal Audit Manager presented the results of the Committee's self-assessment which fed into preparations for the Annual Governance Statement 2016/17. In summarising the findings, she advised that fraud risk awareness would be included as part of the Internal Audit training for the new Council.

**RESOLVED:**

That the report be received.

**62. CLOSING COMMENTS**

The Chairman took the opportunity to thank the Committee for the support given to him during his time as a co-opted member. Councillor Alison Halford said that his contributions had been invaluable and this view was shared by other Members. In endorsing these comments, the Chief Executive spoke about the Chairman's balance in fairness and objectivity on issues discussed.

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

There were no members of the press or public in attendance.

(The meeting commenced at 10.00am and finished at 12.15pm)

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**Chairman**