

AUDIT COMMITTEE
10 JULY 2019

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 10 July 2019

PRESENT: Councillor Chris Dolphin (Chairman)

Councillors: Geoff Collett, Andy Dunbobbin, Patrick Heesom, Paul Johnson and Arnold Woolley

Co-opted member: Sally Ellis

SUBSTITUTE: Councillor: Clive Carver (for Andrew Holgate)

IN ATTENDANCE:

Chief Executive; Chief Officer (Governance); Internal Audit Manager; Corporate Finance Manager; Finance Manager - Technical Accountancy; and Democratic Services Officer

Mike Whiteley of Wales Audit Office

Deputy Head and Accountant of Clwyd Pension Fund (for minute number 18)

13. SUBSTITUTION

In accordance with Constitutional requirements, the Committee agreed to allow Councillor Carver (who had undertaken the requisite training) to substitute for Councillor Holgate.

RESOLVED:

That Councillor Clive Carver be permitted as a substitute for the meeting.

14. DECLARATIONS OF INTEREST

On Agenda Item 8 'Risk Management Update', Councillor Woolley declared a personal interest as Chairman of Flintshire Citizens Advice Service due to reference to the risks on Welfare Reform and Universal Credit.

15. MINUTES

The minutes of the meeting held on 5 June 2019 were received.

Minute number 9: Internal Audit Progress Report - Whilst satisfied with the minutes, Councillor Heesom gave notice that he would speak to officers after the meeting about his concerns on issues relating to the item.

RESOLVED:

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

16. DRAFT STATEMENT OF ACCOUNTS 2018/19

The Corporate Finance Manager presented the Draft Statement of Accounts 2018/19 (subject to audit) for information only at this stage. These comprised the Group accounts, including its wholly owned subsidiaries, and the Annual Governance Statement considered at the previous meeting. The final audited accounts would be received on 11 September for approval and recommendation to County Council on the same day, ready for publication by 15 September in preparation for earlier statutory deadlines.

The Corporate Finance Manager and Finance Manager - Technical Accountancy gave a joint presentation covering the following:

- Purpose and Background of the Accounts
- Contents and Overview
- Responsibility for the Accounts
- Accounts Governance Group
- Links to Budget Monitoring
- Headlines - Council Fund, Revenue Reserves, Capital and Housing Revenue Account (HRA)
- Changes to the Accounts for 2018/19
- Group Accounts
- Timeline and Next Steps
- Impact of Earlier Deadlines
- Clwyd Pension Fund Accounts

Mr. Mike Whiteley of Wales Audit Office (WAO) welcomed the continued co-operation of officers in preparing for the audit and advised that no significant issues had been identified at this early stage. A 'light touch' audit was being undertaken on the three subsidiary companies as they were not deemed to be 'significant' under auditing regulations. If specific areas of concern were to arise during the course of the audit, additional work would be carried out.

On note 28 (related parties), Sally Ellis raised concerns about the increasing amount owed to the Council by the Local Health Board. Whilst acknowledging the links between the two public bodies, she suggested that the issue could be referred to the Overview & Scrutiny function. In providing background, the Chief Executive gave assurance that the matter had been raised with the Health Board and escalated to a high level. Whilst there had been a reduction in the amount owed, he suggested that the Committee may wish him to write formally to raise the concerns as a cashflow and risk issue. Sally Ellis spoke in support of this action.

The Chairman sought assurance that the Social & Health Care Overview & Scrutiny Committee was aware of the matter. The Chief Executive said that whilst the Committee would be aware of the contributing factors, the concerns would be passed on to ensure continued monitoring.

The Chief Officer advised that the figure in the accounts reflected the position at that point in time, and that the current amount owed by the Health Board was

£680K. He said that the matter would be highlighted through the Audit Committee liaison group with Overview & Scrutiny Chairs.

On the Group accounts, Sally Ellis suggested that it would be helpful to include a summary of any significant areas of risk on the accounts of the three subsidiary companies, in particular any possible impact on the core accounts.

The Chief Executive gave assurance on Theatr Clwyd Productions Ltd as a trading company established to access tax relief and Newydd Catering & Cleaning Ltd in providing a continuing service which was operating well.

The Chief Officer explained that the legal structure of North East Wales (NEW) Homes which was wholly owned by the Council meant that assets were protected and the business plan approved annually by Cabinet.

The Finance Manager spoke about the size of the companies in relation to the Council. She suggested that an expanded note on high-level activities and risk summary for each of the companies be included as part of consolidating the accounts from 2019/20.

The Chief Officer provided clarification to Councillor Johnson on the amount owed by Town and Community Councils. The Finance Manager agreed to split the total amounts owed by the North Wales Police & Crime Commissioner and North Wales Fire Authority within the document. On the Youth Exchange Scheme, she explained the requirement for councils to report on funds held outside their own accounts.

The recommendations in the report were moved by Councillor Johnson and seconded by Sally Ellis.

RESOLVED:

- (a) That the draft Statement of Accounts 2018/19 (which includes the Annual Governance Statement approved by the Committee at its June 2019 meeting) be noted; and
- (b) That Members note the opportunity to discuss any aspect of the Statement of Accounts with officers or the Wales Audit Office throughout July, August and September, prior to the final audited version being brought back to the Committee for recommendation to Council for final approval on 11 September 2019.

17. SUPPLEMENTARY FINANCIAL INFORMATION TO DRAFT STATEMENT OF ACCOUNTS 2018/19

The Finance Manager - Technical Accountancy presented the supplementary financial information to accompany the draft Statement of Accounts 2018/19 as requested by the Notice of Motion approved by the Council in 2013.

Information on posts covered by interim or temporary appointments reflected amounts paid to organisations for such arrangements and not necessarily the salaries of the individuals concerned. The costs for consultants and non-permanent posts across the Council included theoretical annualised costs if those individuals had been employed for the whole year, as well as the actual costs incurred.

The recommendation was moved by Councillor Woolley and seconded by Councillor Dunbobbín.

RESOLVED:

That the report be noted.

18. DRAFT CLWYD PENSION FUND STATEMENT OF ACCOUNTS 2018/19

The Corporate Finance Manager introduced the report on the draft Clwyd Pension Fund Statement of Accounts 2018/19 which, following a change in regulations, were now separated from the Council's Statement of Accounts. As approval of the Pension Fund accounts had been delegated to the Clwyd Pension Fund Committee, the report was received for information only.

At its meeting on 12 June, the Clwyd Pension Fund Committee had received a detailed presentation on the accounts on which no significant issues had been raised. The draft Annual Governance Statement (AGS) was also presented, which would be submitted with the audited accounts for approval in September.

In acknowledging the governance arrangements, Sally Ellis said it would be helpful to include in future reports a summary of any points raised by the Clwyd Pension Fund Committee. When asked about the increase in 'oversight and governance' expenses, the Accountant said that these were due to early Actuarial work on the triennial valuation and additional project work on the flight path.

Sally Ellis sought assurance on whether the red risks in the AGS were being successfully mitigated. The Deputy Head of the Pension Fund said that these were a reflection of the highest risks reported as part of a comprehensive risk register to the Clwyd Pension Fund Committee on a quarterly basis.

The Chief Executive said that some risks would remain red due to market volatility and the impact of adjusting to regulatory changes. He spoke about work undertaken by the Clwyd Pension Fund Committee to add flexibility to the market investment strategy supported by internal and external professional advice.

On fund manager diversification, the Deputy Head clarified that no single manager could manage more than 30% of the Fund's assets. The current maximum holding by a single fund manager was 22.8% to manage the Liability Driven Investment (LDI) mandate which aimed to match the profile of Fund members and their liabilities as the Fund grew. Such strategic decisions were subject to regular review by the Committee.

In acknowledging the role of the Clwyd Pension Fund Committee, Sally questioned how the Audit Committee could add value to the process. The Chairman referred to the assurance provided by the Deputy Head and Accountant.

In response, the Chief Executive spoke about the high level of governance on the Fund and suggested that the points raised be referred back to the Clwyd Pension Fund Committee to satisfy itself with the explanations.

Councillor Woolley drew attention to a typographical error in the covering report.

The recommendation was moved by Councillor Johnson and seconded by Councillor Dunbobbin.

RESOLVED:

That the report be noted.

19. TREASURY MANAGEMENT ANNUAL REPORT 2017/18 AND TREASURY MANAGEMENT QUARTER 1 UPDATE 2018/19

The Finance Manager - Technical Accountancy presented the draft Treasury Management Annual Report 2018/19 for review and recommendation to Cabinet. The Quarter 1 update on matters relating to the Treasury Management Policy, Strategy and Practices 2019/20 was also provided for information, along with the reporting cycle.

In preparation for approving the Treasury Management Strategy for 2020/21, all Members would be invited to the annual training session provided by the Treasury Management Advisors in December. Details of the training session would be circulated once finalised.

During an overview of Treasury Management activities in the first quarter of 2019/20, it was noted that the Council had taken on additional borrowing towards the end of March 2019 in accordance with the borrowing strategy.

In response to a question from Councillor Carver, the Finance Manager gave a brief overview of the borrowing strategy and explained how individual loans were taken out with consideration given to the debt maturity profile at the time. Borrowing needs were balanced against capital financing requirements which were subject to movement upwards for capital expenditure funded by borrowing, and downwards by Minimum Revenue Provision (MRP). MRP regulations required councils to set aside revenue funding for repaying debt which impacted on the overall borrowing position by bringing the capital financing requirement down. The Finance Manager agreed to incorporate more detail on this in the forthcoming training session.

On the investment portfolio, Councillor Johnson asked about the Council's investments with other authorities and was informed that the current approach involved more use of Money Market Funds which provided instant access to manage liquidity risk.

The recommendations were moved by Councillor Dunbobbin and seconded by Councillor Woolley.

RESOLVED:

- (a) That the draft Treasury Management Annual Report 2018/19 be noted, with no matters to be drawn to the attention of Cabinet on 24 September 2019; and
- (b) That the Treasury Management 2019/20 first quarter update be noted.

20. RISK MANAGEMENT UPDATE

The Chief Executive presented the end of year position statement on strategic risks contained within the Council's 2018/19 Council Plan. The five strategic major (red) risks at year end which were mainly due to external factors as set out in the report.

A detailed report on the risk management systems would be scheduled in the Forward Work Programme to give assurance to the Committee, including the escalation of emerging risks and role of Internal Audit.

Councillor Heesom said that the closed risk on reduction in land supply had not been mitigated due to his concerns about the viability of the flood alleviation scheme in relation to housing impacting on the Northern Gateway. He also raised concerns about risks on the Ambitious Council theme, specifically on the infrastructure of the transport corridor which was vital to future economic development.

The Chief Executive said that Overview & Scrutiny committees were able to challenge risk profiles if they wished. On the supply of affordable housing, the definition of risks were around accessibility to housing, for example the impact on homelessness and pressure on the Housing Options team, rather than building developments. The provision of affordable housing through the Local Development Plan would be a consideration at the forthcoming County Council meeting.

Councillor Woolley asked for an update on the borrowing cap for building council houses. He was informed that the Welsh Government had agreed to extend this and that once received, the response would be shared with the Committee.

In response to Councillor Johnson's question, the Chief Executive said that the red risk on debt levels would remain. Rent income figures and Council Tax collection rates were reported to Overview & Scrutiny and a forthcoming report to Cabinet included mitigating actions to support those affected by Welfare Reform.

An additional recommendation was agreed to reflect the debate, as moved by Councillor Dunbobbin and seconded by Councillor Woolley.

RESOLVED:

- (a) That the Committee is assured that risks have been managed throughout the year and notes the end of year status of the strategic risks of the 2018/19 priorities of the Council; and
- (b) That a mid-year report be received on the entire risk management system.

21. 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 11.30am

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Chairman