

**AUDIT COMMITTEE**  
**20 NOVEMBER 2019**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 20 November 2019

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

Councillors: Janet Axworthy, Geoff Collett, Patrick Heesom, Paul Johnson and Arnold Woolley

Co-opted members: Sally Ellis and Allan Rainford

**SUBSTITUTE:** Councillor: Joe Johnson (for Andy Dunbobbin)

**ALSO PRESENT:** Councillors: Ian Roberts, Leader of the Council and Cabinet Member for Education; and Billy Mullin, Cabinet Member for Corporate Management and Assets were present as observers

**IN ATTENDANCE:**

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

Matthew Edwards and Gwilym Bury of the Wales Audit Office

Chief Officer (Education & Youth) and Finance Manager - minute numbers 38-39

Chief Officer (Housing and Assets) - minute number 40

Finance Manager (Technical Accountancy) - minute number 41

Strategic Performance Advisor - minute number 43

**35. SUBSTITUTION**

In accordance with Constitutional requirements, the Committee agreed to allow Councillor Joe Johnson (who had undertaken the requisite training) to substitute for Councillor Andy Dunbobbin.

**RESOLVED:**

That Councillor Joe Johnson be permitted as a substitute for the meeting.

**36. DECLARATIONS OF INTEREST**

Councillor Woolley declared a personal interest as the initiator of some of the items in the Internal Audit Progress Report (agenda item 12).

**37. MINUTES**

The minutes of the meeting held on 11 September 2019 were received.

## Matters Arising

Minute number 24: Councillor Heesom asked about the current position on the outstanding debt owed to the Council by the Local Health Board. Officers reported that there had been a slight improvement and that discussions were ongoing. An update would be provided outside the meeting.

Minute number 26: Councillor Heesom was advised to speak to officers separately to refer Alltami Stores follow-up progress to the Environment Overview & Scrutiny Committee. The Chief Executive said that all actions to address long-term issues have been raised with the respective Chief Officers.

### **RESOLVED:**

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

### **38. SCHOOL RESERVE BALANCES YEAR ENDING 31 MARCH 2019**

The Chief Officer (Education & Youth) presented the annual report on reserves held by Flintshire schools and the risks and internal processes associated with schools in deficit.

As at 31 March 2019 there was a 4.7% increase in the overall level of reserves since the previous year, with the 13.1% increase in the net deficit of reserves held by secondary schools offset by a 7.2% increase in primary school reserves. Whilst the position on primary school budgets was mainly positive, secondary school budgets remained under considerable pressures, some of which would be alleviated through the impact of projected demographic changes on the redistribution of funding. On schools with surplus balances, a review was being undertaken of schools with consistently high balances.

The Finance Manager explained that the revised 'Protocol for Schools in Financial Difficulty' - which had recently been issued to schools - provided a more rigorous process for holding schools to account on their financial management and would provide appropriate support for those heading towards a deficit position.

Councillor Heesom sought assurance that the position was being managed. The Chief Executive said that school reserve balances had already been identified by the Council as an area of concern and reinforced by the recent Estyn recommendation. The revised process would show greater transparency and provide constructive challenge to schools where necessary. It was noted that, having been through this process, some secondary schools may still be unable to achieve further efficiencies without compromising delivery of the new curriculum and that special budget intervention may need to be considered.

During discussion, the Finance Manager agreed to circulate the revised protocol to the Committee. The Chairman highlighted the importance of schools sharing the document with their governing bodies to which the Chief Executive responded that officers would formally request that schools place the item on their agendas in the next cycle.

Following a question by Allan Rainford, the Finance Manager confirmed that there were no concerns about the small number of schools which had not yet taken up the option of the enhanced level of service. This extra support was not needed by schools with appointed business managers however schools in a deficit position were obligated to sign up. Information was given on the requirement for schools with surplus balances to submit spending plans. In relation to the Estyn report, there was no defined length of time that schools could carry a deficit balance, however Estyn had been satisfied with the Council's response and had recognised the ongoing financial challenges. It was noted that the position on deficit school reserve balances was not unique to Flintshire.

When asked by Sally Ellis about modelling work on the changes in demographics, the Chief Executive spoke about wider corporate planning projections to inform investment in school building programmes and housing developments. The Finance Manager said that three year projections for primary school numbers to reduce by 495 would result in a 2.5% decrease in their budgets and that secondary numbers rising by 444 would increase their budgets by 3.2%. The Chief Officer said that the demographic changes may be one of a number of reasons for some schools maintaining surplus balances.

In response to comments from Councillor Johnson on school funds, the officers provided a brief update on progress with the action plan discussed in September.

#### **RESOLVED:**

That the school reserves balances as at 31 March 2019 be noted.

### **39. OUTCOME OF ESTYN INSPECTION**

The Chief Executive introduced a report on the outcome of the recent Estyn inspection of education services in Flintshire to provide assurance to the Committee.

The Chief Officer (Education & Youth) said that this was a positive report providing assurance of the quality of services and identifying significant areas of strength in educational provision. The four recommendations for improvement, which had already been identified through the Council's self-assessment process, were being progressed through an action plan verified by Estyn. This would be subject to monitoring through quarterly performance reports to the Education & Youth Overview & Scrutiny Committee.

Councillor Heesom highlighted the recommendation to reduce exclusions and increase attendance in primary and secondary schools. The Chief Officer said that this was a challenge not just in Flintshire due to a number of reasons including increased external pressures facing young people. Officers were working closely with Head Teachers and making better use of the Youth Justice Service to engage with schools to target appropriate support to young people at risk of exclusion.

The Chief Executive described this as the most challenging of the recommendations due to the external factors. He spoke about complex and sensitive work underway to encourage more consistent and holistic practice within schools and governing bodies.

Sally Ellis congratulated the Chief Officer and her team on the positive outcomes from the Estyn report.

The Chairman thanked the two officers for their attendance.

**RESOLVED:**

That the Committee receives and acknowledges the findings of the Estyn report on education services in Flintshire.

**40. ASSET DISPOSALS AND CAPITAL RECEIPTS GENERATED 2018/19**

The Chief Officer (Housing & Assets) presented the annual report summarising land disposals and realisation of capital receipts during 2018/19. 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 continued reduction in Welsh Government (WG) support for capital expenditure.

In response to a questions from Allan Rainford, the Chief Officer clarified the process for disposing of surplus assets including the opportunity to bring them back into use through Community Asset Transfers. He said that all portfolios were engaged with the process and assets were reviewed on a regular basis.

The Chief Officer (Governance) said that the most recent review of the process, which had helped to strengthen arrangements, had received favourable assurance by Internal Audit.

Councillor Heesom spoke about the need for transparency and Member involvement on capital receipts. He also suggested that the Capital Programme could enable portfolio expenditure to be modified to release pressure on the Revenue Budget. The Chief Officer (Housing & Assets) referred to use of capital resources on projects such as the extension of Marleyfield and the overall impact on maintenance costs. The valuation process involved the District Valuer or private sector organisations for specialist local advice, in accordance with the principles, with outcomes reported to the Capital Assets Programme Board.

In response to the Chairman's comments about historic arrangements, officers said that the Capital Assets Programme Board, which was not a decision-making body, was effective in regularly reviewing asset disposals to support the Capital Programme. Disposals above the required threshold were reported to Cabinet.

When asked by Sally Ellis about capital receipts generated from agricultural estates, the Chief Officer said that the process was more complex involving a longer lead-in period. He described the proactive approach to engage with tenants to understand their future plans noting that whilst some who were under the old Agricultural Act tenancies had succession rights, the current model was to use Farm Business Tenancies. On termination of tenancies, vacant farms were placed on the open market and were effectively marketed for sale through specialist agricultural agencies.

The Chairman said that recommendations in reports should be more meaningful. This was acknowledged by the Chief Executive who said that officers should consider more proactive resolutions as demonstrated in reports to Overview & Scrutiny committees.

**RESOLVED:**

That the report be noted.

**41. TREASURY MANAGEMENT MID-YEAR REVIEW 2019/20 AND QUARTER 2 UPDATE**

The Finance Manager (Technical Accountancy) presented the draft Treasury Management mid-year report for 2019/20 to recommend to Cabinet. An update on Quarter 2 activities was also shared for information along with a reminder of the forthcoming Treasury Management training session.

In a summary of the key points, two new long-term loans had been taken out to fund the Capital Programme at a time when interest rates offered financial value. In Quarter 2, an unforeseen increase in Public Works Loans Board (PWLB) borrowing rates had limited impact on the revenue budget but took away opportunities to take advantage of fixed lower rates as the Council had done previously. In response to these changes, balanced consideration would need to be given to long-term financing options at lower rates from the market with increased charges and lead-in times.

Sally Ellis asked about planning to respond to any further increase in borrowing rates from PWLB. The Finance Manager said that the increase impacted the cost and viability of national priorities across the whole of Wales and that officers were working with the Treasury Management advisors to assess borrowing from the private sector.

The Chief Executive spoke about the impact of external factors on the Council's Medium Term Financial Strategy and the need to work through aspects of private sector borrowing with advice from Wales Audit Office colleagues.

Following comments by Councillor Johnson on readiness for Brexit, the Finance Manager said that in the absence of clarity, the main concerns were ensuring liquidity in the event of any disruption to financial systems which reflected the Council's cautious approach. The Chief Executive spoke about planning contingencies on a national level.

Whilst praising the report, Allan Rainford referred to the reduction in capital spend in 2018/19. The Finance Manager said that continual forecasting would take account of any slippage between years to inform borrowing decisions. On another question, she confirmed that the debt maturity profile was monitored in accordance with the Treasury Management indicators.

**RESOLVED:**

That the Committee notes the draft Treasury Management Mid-Year Report 2019/20 and confirms that there are no matters to be drawn to the attention of Cabinet on 17 December 2019.

**42. SUBMISSION OF CERTIFIED GRANTS AND RETURNS 2018/19**

The Corporate Finance Manager presented a report on progress for the submission of grant claims requiring grant certification from Wales Audit Office (WAO) for the year ended 31 March 2019. The report also detailed progress on actions arising from the 2017/18 certification process and outlined changes to the Grant External Audit Process from 2019/20.

All 11 grant claims for 2018/19 had been submitted to WAO by the deadline with the audit findings due to be reported to the Committee in March 2020. Following a national change to auditing arrangements for Local Authority grant schemes, appropriate internal arrangements were being discussed with Internal Audit to include in the Audit Plan for 2020/21 noting the safeguards already in place on the completion of checklists. The new arrangements would also be informed by the findings from the 2018/19 grant certification process.

Matthew Edwards of WAO said that the response to the recommendations was assuring. The forthcoming changes to Welsh Government certification requirements from 2019/20 onwards would result in a significant reduction in workload by WAO which would be reflected in the grant certification audit fee. Whilst audit work was underway on 2018/19 grant claims, positive progress was reported on the first recommendation from the action plan from 2017/18.

In response to a question from Allan Rainford, Matthew Edwards provided clarification on the grant assessment issue previously identified. He noted that this was a complex part of the assessment process and was an issue in other councils. WAO officers were currently assessing the implications of those arrangements and would report back to the Committee in March.

**RESOLVED:**

- (a) That progress of the Grant Claim Certification process for 2018/19 be noted;
- (b) That progress on actions arising from the 2017/18 report be noted; and

- (c) That the changes made to the Grant External Audit Process from 2019/20 be noted.

#### **43. RISK MANAGEMENT UPDATE**

The Chief Executive presented a report which summarised the position on strategic risks in the 2019/20 Council Plan and provided an update on work in progress to re-establish the approach to risk management.

Positive feedback had been received from the Corporate Resources Overview & Scrutiny Committee which had an overarching view of risks across the Council, with individual risks reported quarterly to the respective Overview & Scrutiny committees. The report reflected positive movement in the reduction of major (red) risks on which the Chief Executive gave a brief summary. Good progress was being made on the development of a robust risk management framework due to be shared at the next meeting.

Sally Ellis questioned whether risks were being sufficiently reported through Overview & Scrutiny. The Internal Audit Manager said that work on areas of risk for each of those committees was nearing completion with the potential for a standing agenda item. The findings from the Audit Committee Chair and Vice-Chair Network Group (attended by the Internal Audit Manager and Sally Ellis) would also inform this work.

Allan Rainford asked about the process for determining strategic risks. The Chief Executive spoke about the escalation of risks at Informal Cabinet and meetings with Chief Officers. The Strategic Performance Advisor referred to good engagement with service areas through performance lead officers in each portfolio.

On being put to the vote, the Committee supported the recommendations. Councillor Heesom asked that his abstention be recorded.

#### **RESOLVED:**

- (a) That the status of the initial overview of strategic risks of the 2019/20 priorities of the Council be noted; and
- (b) That the commitment to present the risk management framework and guidance at January's Audit Committee be noted.

#### **44. CONTRACT MANAGEMENT**

The Chief Officer (Governance) presented a report on an Internal Audit review of contract management following an initial audit of procurement reported in 2018. The report identified the need for each service to achieve minimum requirements for effective contract management and for Chief Officers to develop action plans by the end of December to meet those standards within their portfolios.

As this was a long-standing issue, Sally Ellis proposed that the Committee receive an update on action plans in March or June 2020. This was seconded by Councillor Heesom.

In response, the Chief Officer said that a phased approach was being taken due to the complexities involved and that the Internal Audit team followed up actions on audit findings. Progress against action plans would be monitored, recognising that some actions may require more time to complete.

Sally Ellis spoke about the potential for inconsistencies on core competency areas and the need for the Committee to receive assurance on progress. The Internal Audit Manager explained that follow-up work timescales could only be determined once the actions plans had been completed. She suggested that a follow-up audit be included in the 2020/21 Audit Plan to be brought back to the Committee as a formal report. Sally Ellis indicated that she was satisfied with this course of action.

Councillor Woolley asked about the percentage of contracts above the threshold which had not been recorded. The Internal Audit Manager said that the number could not be substantiated in the audit and required further analysis.

Councillor Johnson welcomed the delivery of community benefits and social values and asked where this was reported. The Internal Audit Manager said that the effectiveness of social values in contracts would be included as part of the audit next year. The Chief Officer (Governance) said that an indication of the number of contracts with those clauses was shown in performance reports on the Procurement Service.

#### **RESOLVED:**

That the Internal Audit service monitor the delivery of portfolio action plans (through the routine action tracking) to improve contract management and undertake a follow-up during 2020/21.

#### **45. USE OF CONSULTANTS**

The Chief Executive presented the report on the processes in place to ensure effective management and control of consultancy expenditure in 2018/19. The report was presented annually to the Committee in response to historic issues mainly arising from coding errors. Since 2016, the reports demonstrated the effectiveness of new processes and controls which had been introduced to monitor consultancy spend and achieve value for money.

In response to a question from Allan Rainford, the Chief Executive provided clarification on the separation of posts such as agency workers, consultants and interim appointments recorded on the system.

Whilst acknowledging the supplementary information on consultancy spend accompanying the Statement of Accounts, Sally Ellis proposed that the Committee no longer receive the annual report on use of consultants due to the effective



processes now in place. Councillor Woolley spoke in support and acknowledged the significant improvements which had been made.

**RESOLVED:**

That the Committee is assured that expenditure on consultants is being controlled and the Council is achieving value for money, therefore the Committee no longer requires an annual update report.

**46. INTERNAL AUDIT PROGRESS REPORT**

The Internal Audit Manager presented the update on progress of the Internal Audit department. She provided a brief overview of the three amber/red (some assurance) reports issued since the last meeting.

Attention was drawn to the significant number of actions outstanding, some of which may be due to Chief Officers failing to provide an update. Due to the size of the overall report, the Committee was asked to consider whether to restrict the information to high or high/medium priority outstanding actions and to limit the actions that were six months overdue, many of which involved ongoing actions with mitigating circumstances.

As requested, the Committee's concerns about delayed implementation of actions had been discussed with the two Chief Officers both of whom had provided commentary in the report.

Councillor Heesom highlighted the importance of the content of the report which he felt should have been prioritised on the agenda. As Chairman of the Environment Overview & Scrutiny Committee, he said that the Alltami Stores report had not been raised.

The Internal Audit Manager also provided an update on resources in her team which had prompted a review of work in the Audit Plan to prioritise key areas of risk. In response to a question from Councillor Woolley, she said that the shortfall in resources would be addressed through offering existing part-time team members the opportunity to extend their hours, with the option of engaging agency workers if required. The Chief Officer (Governance) said that team resources were regularly reviewed and that if necessary, agency staff would supplement the proposed arrangement.

In recognition of the work needed to produce the information in the report, Sally Ellis proposed that the section on overdue actions focus on high-risk red and amber issues and that the amber/red report on Highways Cost Recovery be referred to the Environment Overview & Scrutiny Committee for monitoring.

Councillor Woolley spoke in support of retaining the same level of detail on actions overdue by six months from the original date. The Chief Officer suggested that the report focus on any areas where valid reasons had not been provided to seek a view from the Committee. This was supported.

**RESOLVED:**

- (a) That the report be accepted;
- (b) That future progress reports be condensed to include details of overdue actions on only high and medium priority actions and any areas where valid reasons had not been provided for actions older than six months and overdue; and
- (c) That the amber/red reports on Alltami Stores and Highways Cost Recovery be referred to the Environment Overview & Scrutiny Committee.

**47. ACTION TRACKING**

The Internal Audit Manager presented the update report on actions arising from previous meetings.

The recommendation in the report was moved by Councillor Woolley and seconded by Councillor Collett.

**RESOLVED:**

That the report be accepted.

**48. FORWARD WORK PROGRAMME**

The Internal Audit Manager presented the current Forward Work Programme for consideration, including a summary of the changes.

**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.

**49. 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 12.35pm

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**Chairman**