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## AUDIT COMMITTEE 12-03-09

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**Present:** Councillor Gwilym Williams (Chairman);  
Councillor Ioan Thomas (Vice-chairman).

**Councillors:** E.T. Dogan, Huw Edwards, T.G. Ellis, Margaret Griffith, Selwyn Griffiths, Dafydd Ll. Hughes, Aeron Jones, Charles W. Jones, R.L. Jones, Eryl Jones-Williams, John P. Roberts and Gethin Williams.

**Also present:** Dilys Phillips (Head of Administration and Public Protection), Dewi Morgan (Senior Audit and Risk Manager), Dafydd Edwards (Head of Finance), Dewi R. Jones (Head of Schools Service), Hefin Owen (Finance Manager – Development Directorate), Kevin Thomas (Engagement Partner, Wales Audit Office), Amanda Hughes (Local Manager, Wales Audit Office), Gwyn Parry Williams (Committee Officer).

**Apologies:** Councillor Brian Jones

### 1. DECLARATION OF PERSONAL INTEREST

The following members declared a personal interest for the reasons noted –

Councillor Eryl Jones-Williams in the items relating to Council housing and Social Services care and disabilities matters because he was a Council house tenant and because his wife, who was disabled, received social care.

Councillor Dafydd Ll. Hughes in the item relating to the Dwyfor Area learning disability day centres and workshops because he was a community nurse – learning disabilities.

Members were of the opinion that they were not prejudicial interests. They did not withdraw from the meeting and they participated in full during the discussion on the relevant items.

Councillor T.G. Ellis declared a personal interest in the urgent item, namely the financial position of Ysgol Syr Hugh Owen, Caernarfon, because his son was a teacher at the school.

The member was of the opinion that it was a prejudicial interest and he withdrew from the meeting during the discussion on the said item.

The Head of Finance noted that his wife was employed at Ysgol Syr Hugh Owen, Caernarfon, but he was advised by the Monitoring Officer that he should declare a personal interest in the issue but that he should remain in the meeting and observe as needed in order to fulfil his duty as the statutory finance officer in relation to a financial issue.

### 2. URGENT ITEM – FINANCIAL POSITION OF YSGOL SYR HUGH OWEN

(This issue would be discussed at the end of the meeting)

### 3. MINUTES

The Chairman signed the minutes of this meeting, held on 18 December 2008, as a true record.

### 4. OUTPUT OF THE INTERNAL AUDIT SECTION

#### **The work of the Internal Audit Section for the period up to 28 February 2009**

Submitted – the report of the Senior Audit and Risk Manager outlining the work of the Internal Audit Section for the period between 1 December 2008 and 28 February 2009. In submitting the information relating to the work completed during the period, the officer referred to -

- Ten formal reports of audits from the annual audit plan with a relevant opinion category being shown.
- Four audits when memoranda had been produced, rather than a full report.
- Two follow-up reports.

It was reported on further work in progress by Internal Audit. This included eleven draft reports which had been released and 41 audits that were in progress.

Consideration was given to the reports individually and during the discussion, reference was made to the following issues –

#### **Disposal of Council Property – Resources Directorate**

A member asked for a further explanation on the main findings of the audit.

In response, the Senior Audit and Risk Manager informed the committee that the Council had many properties / lands in its ownership and that some which were surplus to requirements needed to be disposed of. A sample of seven disposals had been taken in order to ensure that arrangements were transparent and clear within the Customer Care Service. In addition, there was a need to ensure that the price received for them was fair. The audit had been awarded Opinion B because firm arrangements were in place, particularly in relation to the main risks, namely that the price was a fair reflection of the market price. He was of the opinion that one clause of the property disposal policy should be strengthened in order to ensure consistency and transparency.

In relation to transferring the Council housing stock to another company, a member asked whether there was truth in the fact that all relevant lands were also being transferred to the company. It was agreed that the issue would be forwarded to the attention of the Head of the Housing Stock Ballot Project in order for it to be included in the report submitted to the Council on the outcome of the ballot.

A member referred to the fact that legal documents relating to the transfer of any property, land, etc. from one authority to the next, should note completely clearly what the transferred rights / responsibilities were.

### **Land Searches – Resources Directorate**

A member asked why this audit had received Opinion B, despite the fact that five recommendations that needed to be actioned were included.

In response, the Senior Audit and Risk Manager informed the committee that it had been concluded that Opinion B was appropriate in this audit because of the need to improve and tighten some of the arrangements. He was of the opinion that there was no loss to the Council, therefore, the level of risk did not warrant Opinion C.

### **Compliance with Construction Design Management (CDM) Regulations – Environment Directorate**

A member asked for a further explanation in relation to this audit.

In response, the Senior Audit and Risk Manager informed the committee that there were many points in the Construction Design Management Regulations that Gwynedd Consultancy needed to follow, should this process be used. He was of the opinion, considering the number of regulations the Council had, that praiseworthy work was undertaken by the Consultancy Service.

### **Support Worker Costs – Care Directorate**

A member referred to the fact that the main recommendations had been noted as “High” in the action plan and needed to be addressed soon. Many of these issues caused concern to people as they were profound and serious issues. He was of the opinion that a follow-up report should be submitted to the committee as soon as possible.

In response, the Senior Audit and Risk Manager informed the committee that as August 2009 was the agreed timetable for the majority of the recommendations in the action plan, it would be more suitable to submit a follow-up report at the September 2009 committee.

### **Processing of Travel Expenses – Environment Directorate**

A member asked when further consideration would be given to this issue.

In response, the Senior Audit and Risk Manager informed the committee that he was satisfied that progress was being made in the right direction.

In relation to managing the Council’s fleet vehicles, another member referred to a report prepared by the Head of Highways and Municipal Service which referred to savings of £250,000 the Council would be able to achieve by determining which Council staff members needed a Council vehicle. It was understood that the Council had approximately 600 vehicles in its fleet and that the majority of users used them from their workplace to their home.

In response, the Senior Audit and Risk Manager informed the committee that consideration had been given to how the fleet was managed in terms of

administration, in an audit and follow-up earlier on this year, but that consideration would be given in an audit in the field in 2009/10 to review the business case for the size and nature of the fleet.

**RESOLVED to accept the report on the work of the Internal Audit Section for the period from 1 December 2008 to 28 February 2009 and support the recommendations already submitted to the managers of the relevant services for implementation.**

## **5. INTERNAL AUDIT PLAN 2008/09**

Submitted – the report of the Senior Audit and Risk Manager, providing an update of the current situation in terms of completing the 2008/09 internal audit plan.

He provided details of the situation as it stood on 28 February 2009, as well as the time spent on each audit thus far. Attention was drawn to the following table which disclosed the current status of the work in the action plan:-

<b>Audit Status</b>	<b>Number</b>
Planned	21
Working papers created	2
Field work started	37
Field work ended	3
Draft report issued	10
Final report issued	41
<b>Total</b>	<b>114</b>

He informed the committee that the 2008/09 performance target was to complete 95% of this work.

The officer drew further attention to the fact that the table showed that 37 of the audits (32%) had been noted as having “Field work started” and that a further 21 audits of the 114 (18%) continued to be noted as having been “Planned”. As part of the work planning arrangements for 2009/10, he provided details of the audits of the 2008/09 plan that were unlikely to be completed but which were included in the 2009/10 draft plan. The Senior Audit and Risk Manager informed the committee that should all other audits be completed, the target of 95% would be reached, with 109 of the 114 audits in the plan being completed.

He provided details of a minor amendment made to the plan since the committee’s previous meeting.

In relation to information technology, a member referred to the fact that members should be encouraged to make more use of information technology by using laptops and this would create savings to the Council in relation to using paper.

**RESOLVED to note the content of the report as an update of progress against the 2008/09 audit plan.**

## 6. DRAFT INTERNAL AUDIT PLAN 2009/10

Submitted – a report providing details of the draft plan of the Internal Audit Section's work for the 2009/10 financial year in order for members to voice an opinion on it and approve it.

The Senior Audit and Risk Manager explained that the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 stated that "the Audit Committee should approve, but not direct, the internal audit plan". The report explained the factors considered and the technical process used by arranging the plan prior to its submission to the committee.

At the meeting on 20 December 2007, a draft Internal Audit Strategy 2008-11 was submitted to the Audit Committee. This strategy would be used as a basis for the Internal Audit work for the period in question and it explained how the Internal Audit work would offer assurance in relation to the internal controls that were in place within Gwynedd Council.

The officer explained further that parts of the Internal Audit Strategy showed how specific parts of work were selected to be included in the annual audit plan. Particular attention was drawn to the following headings -

- Fundamental Financial Systems
- Grants
- Audits that were part of funding conditions
- Schools
- Leisure Centres
- Contract Audit
- Anti-Fraud Work
- Project Management
- Corporate Governance

The remainder of the plan had been prepared by considering the activity of each business unit within the authority and undertaking a risk assessment on these activities in order to identify areas for auditing.

There was a resource requirement of 1,573 audit days in order to complete the audit plan. In addition, the following provisions had been included as part of the plan –

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|--|----------|
| • Provision for advising on controls and propriety | 64 days  |
| • Provision for responsive work                    | 132 days |
| • Provision for follow-up                          | 140 days |

The draft plan had already received approval from the Head of Finance and discussions were being held at present with other heads of service and relevant managers.

**RESOLVED to approve the Draft Audit Plan for the period 1 April 2009 to 31 March 2010, subject to minor amendments to be completed by the Senior Audit and Risk Manager, in consultation with the Head of Finance, following further consultation with officers.**

**7. THE WALES AUDIT OFFICE'S REGULATORY PLAN FOR GWYNEDD COUNCIL 2008/09 – FINANCIAL ASPECTS**

Submitted – the Wales Audit Office's Regulatory Plan for Gwynedd Council 2008/09.

The Engagement Partner, Wales Audit Office drew attention to the following aspects of the plan –

- a) An introduction to the work of the Wales Audit Office in Gwynedd Council.
- b) The Wales Audit Office's audit of Gwynedd Council accounts.
- c) The Wales Audit Office audit and certification of grant claims.
- ch) Roles and responsibilities, including appointed auditors' statutory duties and communication with those charged with governance under ISA 260.

He referred to the fact that the plan would also be submitted to the Resources and Corporate Scrutiny Committee in order to have a discussion on the following aspects - value for money, audit of the Council's Improvement Plan, audit of performance, separate reviews to the financial audit and the other work of the Wales Audit Office.

The Head of Finance informed the committee that he had received an opportunity to give observations on the report.

**RESOLVED to accept the report.**

**8. URGENT ITEM – FINANCIAL POSITION OF YSGOL SYR HUGH OWEN, CAERNARFON**

(This item had not been included on the committee's agenda, however, the Chairman agreed to its inclusion under Section 100B (4)(b), Local Government Act 1972 because the matter had been brought to attention through the press after the agenda had been sent to members and a discussion was needed prior to the next meeting in order to air the matters published).

Councillor Aeron Jones reported that this issue had caused him some concern, in particular after understanding that Ysgol Syr Hugh Owen had not requested the sum of £150,000. He did not disagree with giving money to any school that needed assistance but he did disagree with the method in which it had been done. He was a governor of two schools that faced financial difficulties.

He drew attention to the ESTYN report which referred to the fact that the number of pupils at the school had reduced, therefore, it was unavoidable that jobs would be lost there. At present, there were 55 full-time members of staff at the school. That was true of one school where he was a governor and savings of £12,000 had to be achieved. He also referred to a clause in the report where the inspectors praised the education but saw that the management of the former-governors and former-head teacher had been lacking.

He was dissatisfied that the school was allowed to run on debts as the governors and the head teacher were responsible for the school's finance. On the whole, the current Governing Board worked quite well. He was also

dissatisfied that the £150,000 had been given to the school without it being considered at all by a Council committee. He referred to the decision of the Council Board on 3 June 2008 to place £108,000 of the underspend of £401,000 in a reserve fund in order to facilitate appropriate action in response to exceptional problems in individual schools, in line with the request of the Schools Service.

He also referred to the report of the Wales Audit Office in relation to financing education in Wales. The report showed that Gwynedd was 19<sup>th</sup> out of 22 in Wales for spending IBA money on education. He was of the opinion, as a result of the underspend in the money received from the Assembly, that the Schools Service should invest money for those schools that were in dire need of it.

In response to the above, the Head of Schools Service submitted the following observations –

- The school was allocated £150,000 to enable the Council to avoid unnecessary redundancy costs, and consequently the school controlled the budget for 2008/2009 and the budget for 2009/2010 was prudently set.
- Throughout the years, the Authority had wished to and had been ready to work with schools. This was an important principle.
- In recent years, the school had faced a substantial reduction in pupil numbers, and consequently there had been an equivalent reduction in the school's budget. Prior to this trend being controlled, it was decided that the funding be allocated to the school so as to enable it to avoid having to make staff redundancies in addition to those redundancies required so as to create a long-term balanced budget. The additional redundancies were regarded as being unnecessary for perhaps a period of a year before the school would then be in a position to appoint teachers.

As the Council was the employer, allocating funding to the school avoided unnecessary redundancy costs, and even more importantly, disruption of the school's educational programme and pupils' learning conditions were avoided. Providing the school with funding represented much better use of money than spending an amount of the Council's budget on meeting redundancy costs would have done.

- Council reserves were used so as to take appropriate action when responding to exceptional funding problems at individual schools. The Council delegated (*Board meeting held on 3 June 2008*) a little over £200,000 to this fund last year when discussing the final accounts.
- As this reserve fund was in the Schools Service's budget, this expenditure was authorised by the Head of Service due to the exceptional requirements at the school. The decision was taken following discussions held between the relevant officers, the Head teacher and Governors during June 2008. The possibility of providing an additional allocation for the school was first mentioned at a meeting held with the school's new Head teacher on 16 June 2008, and the funding was released to the school in mid December 2008.
- The Authority's previous experience showed that additional financial resources had been allocated in instances of exceptional circumstances.
- After the school's governing body took appropriate management steps to reduce costs, including a substantial number of voluntary

redundancies in recent years, the school had a tight hold on its budget and there would be no compulsory redundancies this year.

- The ESTYN report on the school in October 2008, contained the following statement as the inspectors reported on the effective and efficient use made of the school's resources and the value for money:-

*“During the current financial year, the Governing Body decided, after consultation with the Unitary Authority, to adopt a budget with a planned deficit. This is not considered to be good financial practice by the Audit Commission. However, the school is working closely with the Unitary Authority to solve its overspend and has come to an agreement on the most appropriate steps for action. Considering the overall situation, with regard to the pupils’ and students’ good standards of achievement, and a good quality of teaching, the good curricular provision, the good quality of the support and guidance for pupils and staff, the school provides good value for money.”*

- The Authority regretted that the recent public attention received by the school had created the impression that there were serious problems at the school that could impact the quality of education provided for the pupils. It wished to state that this was a total fallacy and it extended its best wishes to the school, its Head teacher and Governors in their battle to ensure that the school's reputation was restored and strengthened in the eyes of the community that it served.
- That the heads of other secondary schools in Gwynedd and the head teachers' federation consultation group supported the above-mentioned steps.

With regard to cases where budgets were in deficit, the Head of Finance informed the committee that the circumstances of Ysgol Syr Hugh Owen were exceptional, however, the status of school budgets in deficit was not a unique situation. On 31 March 2008, 6% of the schools in Gwynedd and 11% of the schools in Wales were in the same situation.

The Head of Finance expanded upon this and referred to the reduction in pupil numbers over a period of five years and that this had reduced the school's budgetary allocation. In providing this additional allocation, the Council would avoid further expenditure by the Schools Service. When staff members were made redundant, there were very substantial costs associated with the early release of pension and redundancy costs, and the “central” Council, not the school's delegated budget would have had to fund those unnecessary redundancy costs.

The Finance Manager – Development Directorate reported that the secondary sector, because of a reduction in pupil numbers and the Council cuts, had faced a 7% reduction in their budget. This school had faced a reduction of 28% in budgetary terms. He referred to the change in the school's catchment area which had caused a reduction in the number of pupils who attended the school as parents chose to send their children to other nearby schools. Another factor was the reduction in the school's 2008/09 settlement and it was understood from DCELLS that there would be a cut of 7.4% in the 2009/10 settlement. He was of the opinion that it was impossible for the Council to avoid expenditure in this case. Five teachers could have been made redundant for a period of one year in order to identify the loan and then

they would have been re-employed. He confirmed that this was a one-off contribution.

**RESOLVED to note the reports.**

The meeting commenced at 10.30am and concluded at 12.30pm