
AUDIT COMMITTEE, 29.06.09

Present: Councillor Gwilym Williams (Chairman);
Councillor Huw Edwards (Vice-chairman).

Councillors: E.T. Dogan, T.G. Ellis, Margaret Griffith, Selwyn Griffiths, Dafydd Ll. Hughes, Aeron Jones, Brian Jones, Eryl Jones-Williams, John P. Roberts, Ioan Thomas, Gethin Williams and Dylan Edwards (Portfolio Leader - Finance)

Also present: Dewi Morgan (Senior Audit and Risk Manager), Dafydd Edwards (Head of Finance), William E. Jones (Senior Finance Manager), Caroline Roberts (Acting Resources and Corporate Finance Manager), Helen Williams (Capital and Management Accountant), Gwyn Morris Jones (Head of Highways and Municipal Department), John Edwards (Highways Provider Unit Manager), Amanda Hughes (Local Manager – Wales Audit Officer), Gwyn Parry Williams (Committee Officer).

Apologies: Councillors Charles W. Jones and R.L. Jones

1. CHAIRMAN

RESOLVED to re-elect Councillor Gwilym Williams as Chairman of the Committee for 2009/10.

2. VICE-CHAIR

Councillor Ioan Thomas (Vice-chairman for 2008/09) noted that he had been elected as Vice-chairman of the Development Scrutiny Committee the previous week, and therefore, in accordance with the Council constitution, he was unable to be the vice-chairman of two committees.

RESOLVED to elect Councillor Huw Edwards as Vice-chairman of the committee for 2009/10.

3. DECLARATION OF PERSONAL INTEREST

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

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

Councillor Dafydd Ll. Hughes in the item involving the learning disability register as he was a community nurse – learning disability team.

Councillor Aeron Jones declared a personal interest in the item involving the use of sub-contractors in the Highways Works Unit as his brother in law worked for the Trunk Road Agency.

The members were of the opinion that they were not prejudicial interests, and they did not withdraw from the meeting and therefore participated fully in the discussion on those relevant items.

Councillor Aeron Jones declared a personal interest in the item of the minutes regarding the financial situation of Ysgol Syr Hugh Owen, Caernarfon as he had made a formal complaint in relation to a senior officer.

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

In relation to the item involving Members' Allowances, a member asked for guidance whether all committee members needed to declare a personal interest or not. In response, the Head of Finance advised that the members should declare a personal interest but that they did retain the right to participate in the discussion.

4. MINUTES

The Chairman signed the minutes of the meeting of this Sub-committee held on 12 March 2009, as a true record.

In relation to item 8 – the financial situation of Ysgol Syr Hugh Owen, Caernarfon, a member drew attention to the fact that he had stated at the previous meeting that a substantial amount of money had gone to one school and his dissatisfaction that the minutes did not include the expectation for members to be notified of this. The Head of Finance pledged that he would convey the observation to the Head of Schools.

5. STATEMENT OF ACCOUNTS 2008/09

Submitted – the statutory Statement of Accounts for the 2008/09 financial year providing details of the Council's financial activities during the year which ended on 31 March 2009.

The Head of Finance explained that, to date, the accounts had not been audited and it was possible that some changes would be needed prior to submitting the final version to this committee on 28 September 2009. The basic form and content of these Statements was prescribed under regulation 7 of the Accounts and Audit (Wales) Regulations 2005, as well as other regulations and standards. As the regulations required statements in a standard format, comparisons with other bodies' accounts were facilitated, but their contents had now become very technical.

Reports regarding the accounts were presented to the Resources and Corporate Scrutiny Committee on 2 June and to the Council Board on 9 June 2009. Those reports were more useful for internal/management purposes, while the Statement of Accounts was more suited for external / governance purposes. The Audit Committee are those "charged with governance" on behalf of the Council.

The Head of Finance elaborated that it was essential for this committee to approve the accounts with a formal decision before 30 June 2009, following this, the committee Chairman would be required to sign and date the Statement of Accounts. Subject to the approval of the Audit Committee, the

statement, along with all other relevant financial statements, would be the subject of the annual audit process by the Wales Audit Office. In addition, the accounts would be available for the public's inspection for a period of 20 days.

The Senior Finance Manager provided a detailed explanation of the various accounting policies, the various accounts, statements and the relevant notes. Many questions were raised by the members in relation to the accounts including the trends in the level of debtors, salary bands, specific funds, value of investments etc. and the officers responded to them.

The Senior Audit and Risk Manager referred to the Council's Annual Governance Statement for 2008/09 included as part of the Statement of Accounts (see item 6).

Members were reminded that the Pension Fund accounts would be submitted to all the fund employers in an Annual Meeting on 21 July 2009.

A member drew attention to the fact that Gwynedd Training was currently running at a loss and asked what the forecast was for the future. In response, the Head of Finance explained that the future of Gwynedd Training was the subject of discussions at that time as one of the 'saving ideas' to be submitted to the Council Board on 30 June and the subsequent scrutiny committees.

All relevant officers were thanked for their work on the accounts.

RESOLVED

a) To accept and approve the Council's Statement of Accounts (subject to audit) 2008/09 for publication and audit.

b) That the Chairman of the Audit Committee is asked to sign and date the statement.

6. GWYNEDD COUNCIL'S ANNUAL GOVERNANCE STATEMENT

Submitted – the report of the Senior Audit and Risk Manager presenting the Council's Annual Governance Statement for 2008/09 for the committee's approval.

He explained that the Accounts and Audit Regulations (Wales) 2005 required local authorities in Wales to produce an annual Statement on the Internal Control (SIC) pursuant to regulation 4(2)(a). There was no statutory requirement on Welsh local authorities to produce an annual governance statement beyond the requirement for a Statement of Internal Control. However, the Welsh Assembly was currently undertaking a consultation exercise on amendments to the Accounts and Audit Regulations. Amongst the questions asked in the consultation was whether the Annual Governance Statement should be made mandatory. This would make the requirements on local authorities in Wales consistent with the current requirement on councils in England. Although publication of the Annual Governance Statement by Gwynedd Council for 2008/09 was therefore voluntary, it was likely that such a statement would become mandatory by the following year. He noted that once it had been approved by the Audit Committee, the Annual Governance Statement would then be signed by the Chief Executive and the Council Leader. The document was incorporated within the Statement of Accounts (pages 7 – 17) and was submitted to the committee as a separate item.

He explained in detail what was required within the Annual Governance Statement. He emphasised that it was essential that evidence was in place in order to support the contents before publishing the document. The Wales Audit Office would review the evidence as part of their review of the Council's work. Information from several sources was used in preparing the statement including the Council's constitution, internal audit reports, the Council's Three Year Plan and its Finance Strategy.

RESOLVED to approve the Annual Governance Statement, incorporating Gwynedd Council's Statement on Internal Control for the 2008/09 financial year and the period since the balance sheet date.

7. OUTPUT OF THE INTERNAL AUDIT SECTION

a) A report to be considered at the request of the Chairman and Vice-chairman The use of Subcontractors – Highways Works Unit

The Senior Audit and Risk Manager reported that the Committee's Chairman and the Vice-chairman had requested that officers from the Highways and Municipal Department attend the meeting in order to respond to any questions that may arise from "The Use of Subcontractors, Highway Works Unit" internal audit report.

This followed a consideration of the internal audit reports released during the period between 1 March and 31 May 2009. The officer added that the purpose of the audit was to ensure that the Highways Works Unit appointed subcontractors in accordance with the Council's Contracts Rules of Procedures and good practice.

The original report was graded as Opinion Category C and that no propriety could be given to the Highways Service Unit's arrangements for using subcontractors. The Senior Audit and Risk Manager reported that the audit's main findings were that the Highways Works Units had no arrangements in place to appoint subcontractors in accordance with the construction industry's good practice or the Council's Contracts Rules of Procedure. It was also seen that the unit was tendering for work despite knowing that the internal workforce did not have the capacity to undertake the work, and then giving the work to subcontractors. This was not unusual in the industry and Internal Audit did not object to this as larger companies that won tenders regularly subcontracted work to local companies. However, it was seen that there were significant weaknesses in the arrangements for awarding this work to private subcontractors.

The officer highlighted the fact that the former Gwynedd Civil Engineering in operation until 2002 was a direct workforce regime where, in accordance with legislation, there was a requirement to compete for work and to be profitable. By now, Gwynedd Civil Engineering was a part of the Highways Works Unit, it continued to work as a commercial establishment and to compete for work on a number of contracts. In reclaiming the costs of any internal works they could be accountable to the commissioning side within the Highways Department. The unit competed for contracts from the Consultancy Service.

In response to the abovementioned points, the Head of Highways and Municipal reported that this service was required to be competitive and that work from both private and public sectors were undertaken by them. He was glad that the investigation had been held and he acknowledged that there were some weaknesses in the procedure. He referred to the fact that "Constructionline" was partly used; the procedure of identifying whether appointed contractors or sub-contractors were insured. He confirmed that the twelve recommendations referred to in the investigation had been implemented. Seven recommendations derived from the fact whether 100% of "Constructionline" was used. In addition a regular rotation procedure had been ensured for when a sub-contractor was contacted, that Constructionline was used and that the Council also went to more than three sub-contractors. He also confirmed that a procedure was in place to monitor a turnover in the contractors asked to undertake the work. In terms of ensuring compliance with the Council's Procedural Rules, this was already in place.

RESOLVED to accept the reports and to support the recommendations submitted to the Highways and Municipal Department for implementation.

b) The work of the Internal Audit Section for the period to 31 May 2009

Submitted – the report of the Senior Audit and Risk Manager outlining the Internal Audit Section's work in the period between the 1 March and 31 May 2009. In relation to the information on the work completed during the period, the officer referred to -

- 18 formal reports on audits from the annual audit plan with the relevant opinion category shown for each one.
- Nine reports where memoranda were produced, rather than full reports.
- Three follow-up audits.
- One Responsive Audit.

Details of further work Internal Audit had in the pipeline was reported upon. This included ten draft reports which had been released and 30 audits which were ongoing.

Consideration was given to each report and during the discussion reference was made to the following matters -

CITRIX Users and Applications Management

One member drew attention to the difficulties he had with the CITRIX software. Many members expanded that it would be beneficial for them to have "WiFi" access to the internet within Council establishments via CITRIX.

In response, the Senior Audit and Risk Manager said that CITRIX was software which was used to have access to Council files from outside Council Offices. He agreed to discuss the difficulties with the Council's Information Technology Unit.

Overpayment of Members' Travelling Allowances

A member drew attention to the fact that some Council members had been appointed on the North Gwynedd Community Health Council and as the

budget of the Community Health Council was quite weak to pay for the full travelling costs, he enquired whether Gwynedd Council could take the responsibility for making these payments.

In response, the Chairman of the North Gwynedd Health Alliance explained that the Monitoring Officer was considering the matter.

It was agreed that there was a list to be sent out to all Council members noting the bodies, external organisations etc where members had the right to claim travelling costs when undertaking their duties.

RESOLVED to accept the report on the Internal Audit Section's work for the period between 1 March and 31 May 2009 and to support the recommendations already submitted to the managers of the relevant services for implementation.

8. INTERNAL AUDIT TERMS OF REFERENCE

Submitted – the report of the Senior Audit and Risk Manager referring to the terms of reference submitted to the Audit Committee in June 2008 in order to reflect the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code of Practice noted that the Internal Audit Terms of Reference should be reviewed regularly. It was also noted that the establishment should define the purpose, authority and responsibility of Internal Audit formally in terms of reference consistent with this Code. A number of duties and responsibilities presented as part of the Code of Practice were noted and they were referred to fully in the report.

Following a further review of the Terms of Reference, some amendments to it were needed to reflect the changes in the Council structure which came into effect in April 2009. These structural changes were reflected in the revised Financial Procedural Rules adopted at the annual meeting of the Council on 7 May 2009.

RESOLVED to accept and note the contents of the Internal Audit Terms of Reference and to support the Internal Audit Section to fulfil its role.

9. THE ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT 2008/09

Submitted – the annual report of the Senior Audit and Risk Manager for 2008/09. He explained that he was duty bound as the Council's Head of Internal Audit to provide assurance on the whole system of internal control of the authority. He added that assurance could not be absolute in giving his opinion, and the most that the internal audit service could provide to the Council was a reasonable assurance that there were no major weaknesses in the whole system of internal control. In assessing the level of assurance to be given, he had taken into account all audits relevant to 2008/09 and any follow-up action taken in respect of this and previous periods. The officer was satisfied that Gwynedd Council had **“a sound framework to provide reasonable assurance regarding effective achievement of the Council's objectives, as the steps taken by the Council during the accounting period to establish and strengthen internal controls and to ensure that recommendations to remedy weaknesses identified by the Internal Audit service have, overall, been satisfactory”**.

In giving his opinion on the adequacy of the internal control systems, the officer took the following into consideration -

- a) Overall, good internal control was found within each of the Council's individual services.
- b) Where significant internal control weaknesses were found, these matters were resolved by the Council's officers, or otherwise were considered by the Audit Committee.
- c) No reliance had been placed by internal audit on any work by external audit bodies when formulating the opinion in the annual report.

In relation to the planned work, he said that 95% of the planned work for 2008/09 contributed to the opinion contained within the annual report. He referred to the analysis of the use of Internal Audit resources during 2008/09. The number of productive days supplied for completing Gwynedd Council audits in the period between 1 April 2008 and 31 March 2009 was 1,736 days, compared with 1,579 days for the same period in 2007/08. During the year, some staff turnover was seen which meant that some posts were empty for periods of time. However, a successful reorganisation was undertaken during the year, with the new appointments of staff that had shown real potential.

Further reference was made in the report to the way in which internal audit reports were categorised. From the reports relevant to the 2008/09 plan, 80% received an "A" or "B" opinion which was a vast improvement on the previous year, when the figure was approximately 70%. No report was given a "CH" opinion.

Approximately 95% of the follow-up audits that had been specifically included in the 2009/09 plan or were released between 1 April 2008 and 31 March 2009 were given either an "Acceptable" or "Excellent" opinion. This suggested that there were robust arrangements within the authority to implement audit recommendations in order to strengthen internal controls and manage risk.

The results of the 2008/09 performance indicators were presented and an explanation was provided of the reasons for failing to reach some targets.

In relation to compliance with the Code of Practice, the Wales Audit Office reported that Internal Audit, on the whole, had complied with the requirements of the 2006 CIPFA Code of Practice for Internal Audit. The Wales Audit Office measured Internal Audit against this code. It was reported that Internal Audit had developed an action plan in order to ensure compliance with the Code of Practice within fields where currently they were only partly met.

In relation to Corporate Governance – Officer Authorisation Arrangements, a member enquired whether it was within the rules for an officer to sign an order to purchase a relatively expensive item if that item was for his own purposes. In response, the Senior Audit and Risk Manager reported that there should not be a situation where the same officer would sign an order as well as certify the payment. A situation where an officer certified orders for goods for his own purposes was not ideal, however it was happening. The Head of Finance elaborated that introducing new electronic ordering arrangements over the coming years, where an order would need to be "signed" by an officer and approved by another officer, would be an additional control to be welcomed.

In relation to school Language Units, a member drew attention to the fact that it was felt that school budgets were being used to subsidise the language units. The officer promised that he would address the matter.

RESOLVED to accept the report as the Senior Audit and Risk Manager's annual formal report in accordance with the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom.

10. GWYNEDD COUNCIL'S ANTI-FRAUD AND ANTI-CORRUPTION STRATEGY AND FRAUD AND CORRUPTION RESPONSE PLAN

Submitted – the report of the Senior Audit and Risk Manager that the Council, like any other public organisation that dealt with a substantial amount of money, was not immune from being subject to attempts to defraud or to influence officers and / or members in a corrupt manner. This could be undertaken or attempted by individuals from outside the Council, by staff, by members, or a combination of these conspiring with each other.

He explained that the abovementioned strategy and plan had by then been in place for a number of years, and it was now time to review them in order to reflect legislative changes as well as amendments to Council policies and working practices. The strategy forms a key part of the authority's governance framework, and its adoption, its promotion and its implementation were essential steps in gaining the confidence of the public with regards to protecting taxpayers' money. It reflected the Council's decision to protect itself from fraud and corruption and its intention was to ensure high standards of public accountability.

He explained that the purpose of the strategy was to provide an overview of Council policy in terms of its attitude towards fraud and corruption and those who perpetrated, or sought to perpetrate, fraud and corruption against Gwynedd Council and the taxpayer. The Fraud and Corruption Response Plan set out what staff and / or managers should do when discovering or suspecting that fraud or corruption was happening and the practical steps that the Council should follow to deal with the matter. The plan also outlined how the Council would act and the options which must be considered, when sufficient evidence had been collected to support the allegation of fraud or corruption, including internal discipline and / or criminal or civil prosecution, or a combination of these.

RESOLVED

a) to approve the Anti-fraud and Anti-corruption Strategy and the Fraud and Corruption Response Plan and formally adopt them.

b) to express support to the documents and to support Council Members and officers in their implementation.

11. THE WALES AUDIT OFFICE ASSESSMENT OF GWYNEDD COUNCIL'S INTERNAL AUDIT SERVICE

Submitted – the report of the External Auditor that the Code of Audit and Inspection Practice issued by the Auditor General for Wales and the International Standard on Auditing required them to consider whether the internal financial control arrangements of Gwynedd Council were adequate. As internal audit was a key element of the system of internal control, an annual assessment of its performance was completed.

Having completed the assessment, the External Auditor was of the view that the Council had an effective internal audit service. It complied in most respects with the standards of the CIPFA Code of Practice for Internal Audit. However, the Head of Internal Audit had some operational responsibilities that were not consistent with the independence standard. It was noted that following a discussion with the Head of Finance the External Auditor understood that the Council would not change its structure. In addition, the Wales Audit Office report noted that there were some weaknesses in relation to the standards of undertaking audit work, reporting and performance, quality and effectiveness. In an attempt to improve the service performance, the External Auditor from the Wales Audit Officer recommended the following -

- a) to ensure the recently introduced practice of agreeing and issuing written briefs to managers was fully implemented.
- b) To ensure that audits were completed on a timely basis.
- c) To improve the reporting of performance information to ensure that it was both clear and accurately reflected levels of activity.

RESOLVED to accept the report.

General Matter - Time and Venue of the Meeting

A member asked whether it would be possible to change the starting time of the meeting to 10.00am and that consideration also be given to varying the venue and to consider the Contact Centre at Penrhyndeudraeth.

RESOLVED to entrust the matter to the relevant officers.

The meeting commenced at 10.30am and concluded at 1.15pm.