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## AUDIT COMMITTEE, 28-09-09

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

**Councillors:** E.T. Dogan, T.G. Ellis, Margaret Griffith, Dafydd Ll. Hughes  
Brian Jones, Charles W. Jones, R.L. Jones, John P. Roberts, Ioan Thomas,  
Gethin Williams and Dylan Edwards (Portfolio Leader - Finance)

**Also present:** Iwan Evans (Legal Services Manager), Dewi Morgan (Senior Manager - Audit and Risk), Dafydd Edwards (Head of Finance Department), William E. Jones (Senior Finance Manager), Caroline Roberts (Acting Resources and Corporate Finance Manager), Helen Williams (Capital and Management Accountant), Marina P.Owen (Pensions and Investments Officer), Kathryn Roberts (Audit Leader – Development), Kevin Thomas (Engagement Partner – Wales Audit Office), Amanda Hughes (Local Manager – Wales Audit Office), Gwyn Parry Williams (Committee Officer).

**Apologies:** Councillors Selwyn Griffiths, Aeron Jones, Eryl Jones-Williams

### 1. DECLARATION OF PERSONAL INTEREST

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

Councillor Dafydd Ll. Hughes in the item involving learning disability, private day care, as he was a community nurse – learning disability team.

Councillor Gethin Williams in the item involving the purchase of food and stock control as his wife was a cook in a primary school.

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 Gwilym Williams in the item involving the overspend of Ysgol Maenofferen, Blaenau Ffesiniog as his niece 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 item.

### 2. MINUTES

The Chairman signed the minutes of the meeting of this Sub-committee held on 29 June, 2009, as a true record.

Matter arising

Minute 7 - Output of The Internal Audit Section

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

CITRIX Users and Applications Management

A member enquired about the latest situation regarding discussions with the Council's Information Technology Unit.

In response, the Head of Finance Department notified the committee that the matter had been discussed with the Head of Democracy and Legal Department and the Head of Customer Care Department and in due course it was intended for members to have access to minutes etc on the intranet in the Council's main chambers in Caernarfon.

**RESOLVED to press on the relevant officers to implement the system as soon as possible.**

**3. FINAL ACCOUNTS 2008/09**

**i) Statement of the Accounts**

The Head of Finance Department submitted the revised statutory financial statements for the committee's approval. He explained that overall, a successful year was had again this year, and the accounts had been completed within a challenging schedule before the end of June. He referred to one matter which had not been fully agreed, namely, the provision for capping the Cilgwyn site. He reminded members that the Council had inherited the site from the Môn-Arfon Waste Company the previous year and financial provision had been made for this purpose. Maybe the way in which the matter was dealt with was not 100% in accordance with the requirements of FRS 12 (as noted in the Wales Audit Office report), however, the officers understood the Auditor's comment and the Auditor understood the way in which the Council had dealt with the matter. It had been agreed to disagree on this point in relation to the accounts, and the Council wanted to progress with the accounts as they stood, the Auditor was aware of this and was ready to provide an unqualified opinion on the accounts regardless of this.

The Head of Finance Department further noted that he was overall satisfied with the contents of the Auditor's reports AS he drew attention to an important message in both reports where the Appointed Auditor submitted an unmodified report on the accounts and an unqualified report on the pension fund.

The Senior Finance Manager drew attention to some of the main matters noted in the Wales Audit Office report. He also referred to the matter of FRS12 in relation to the Cilgwyn site. He explained that the Council had now invested approximately £3m to solve the Cilgwyn site situation due to the essential work of capping the site.

The Senior Finance Manager reported that the IPF company, which was a company owned by CIPFA, had been commissioned to provide a report and action plan for the asset registering system.

A member enquired whether it would be possible to submit an update to the next committee on the project's position. In response, the Senior Finance Manager said that he would do this.

**ii) "ISA 260" Formal Report**

**a) 2008/09 Gwynedd Council Statements of Accounts**

In accordance with the annual "ISA 260" procedure, namely the Appointed Auditor's report for those charged with governance, the report of the Wales Audit Office (WAO) was submitted. The WAO Engagement Partner, the WAO Appointed Auditor's representative for Gwynedd Council was present to submit the information.

It was reported that the Council was responsible for providing financial statements to present the financial situation as it stood on 31 March 2009 along with the income and expenditure in the year which ended on 31 March 2009.

The Wales Audit Office was responsible for undertaking an audit and for reporting whether they it was of the opinion that the reports presented fairly the financial position of the Council at the end of every year. He explained that it was intended to issue an unmodified report on the accounts.

Reference was made in the Wales Audit Office Report to some concerns and the WAO Local Manager referred to these individually and noted possible improvements. She drew attention once more to the one misstatement that had not been corrected, apart from minor misstatements which had been defined as negligible. It was noted that the WAO had asked the Council to provide an additional £1.919m to pay for costs deriving from an obligation in relation to capping and after-care costs on the Cilgwyn waste disposal site. This would have provided the money to pay the costs in the future while conforming to FRS12 requirements. As the Council was not prepared to correct this misstatement, the reason for doing so would need to be noted in a letter.

The WAO Engagement Partner referred to the fact that it was not possible to complete the audit formally and to issue an audit certificate until enquiries arising from a matter raised by a member of the public during 2006/07 had been formally completed. However, he confirmed that the matter would not affect the 2008/09 accounts. He explained that Anthony Barrett from the Wales Audit Office had completed his inquiry into the matter and had published a temporary statement of his findings to the objector and to the Council asking them for their observations on the statement before 9 October 2009. Subsequently, it was anticipated that the audit could be completed formally and audit certificates issued for the 2006/07, 2007/08 and 2008/09 accounts.

He drew attention to one matter of governance interest, namely, the investments kept by the authority in a bank associated with Iceland which became bankrupt in October 2008. As a result, the authority was required to consider to what degree these events had reduced the value of these deposits for the 2008/09 accounts. He noted that CIPFA had issued amended guidelines in September 2009 outlining the latest situation in relation to a likely recovery. The Council reviewed this amended information and it was calculated that the impact of the change would improve the deposits by a further £35,000, and £5,000 of it was associated with the pension fund. As this amount was not relevant and it could change, no other amendment was made to the statement of accounts.

Many questions were raised by the members in relation to the accounts and the reports of the Wales Audit Office, and the officers responded to them. In response to an enquiry made by a member in relation to the cost of the audit

on the matter raised by a member of the public in 2006/07, the WAO Engagement Partner agreed to submit a report on the cost of the WAO Appointed Auditor's related inquiries to the next meeting of this committee.

#### **b) 2008/09 Pension Fund Statements of Accounts**

As above, the Wales Audit Office Local Manager reported that the Council was responsible for providing financial statements to present the financial situation as it stood on 31 March 2009 along with the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

The Wales Audit Office was responsible for undertaking an audit and for reporting whether it was of the opinion that the reports presented fairly the financial position of the Council at the end of every year. He explained that it was intended to issue an unqualified report on the pension fund.

Reference was made in the Wales Audit Office Report to some concerns and the WAO Local Manager referred to these individually and noted possible improvements.

**RESOLVED to accept the reports with thanks to the relevant officers in the Finance Department for their hard work in producing the accounts.**

#### **iii) Letters of Representation**

Following discussions on the 2008/09 final accounts, the Head of Finance Department submitted draft letters addressed to the Appointed Auditor from the Audit Committee who was charged with governance in Gwynedd Council. The "letters of representation" included statements regarding the 2008/09 statements of accounts/ pension fund and dealt with various matters including assets, liabilities, investments and internal control. He explained that he had drafted the observations on behalf "of those charged with governance", namely, the Audit Committee.

The Head of Finance Department explained that the "liabilities" section of the first letter dealt with the "FRS 12" matter, in relation to Gwynedd Council's provision for the capping and the after-care of the Cilgwyn site, which had been discussed previously. Otherwise, he reported that the letter noted that the Council, in closing the accounts, had conformed to various conditions, there were no significant material misstatements in the statutory financial statements and that no such matters had been omitted.

**RESOLVED that the Audit Committee, with the power delegated by the Council to be "charged with governance" in relation to approving the statutory financial statements and the relevant audit, authorise the Head of Finance and Chairman of the Committee to sign the letters and to submit them to the Wales Audit Office Appointed Auditor.**

#### **4. OUTPUT OF THE INTERNAL AUDIT SECTION**

##### **The work of the Internal Audit Section for the period to 31 August 2009**

Submitted – the report of the Senior Manager – Audit and Risk outlining the Internal Audit Section's work in the period between the 1 June and 31 August

2009. In relation to the information on the work completed during the period, the officer referred to -

- 19 formal reports on audits from the annual audit plan with the relevant opinion category shown for each one.
- One report where memoranda was 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 eleven draft reports which had been released and 42 audits which were ongoing.

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

### **Insurance Arrangements**

A member asked for further explanation regarding the main findings.

In response, the Senior Manager – Audit and Risk said that in this case he was the customer in terms of the managerial arrangements of insurance and that reviewing duties etc. had been delegated to another Senior Officer in Internal Audit. When comparing the Property Unit's property list with the Insurance Unit's property list, it was found that one property had not been included on the list and this had been rectified. From then on, there was assurance that there would be no anomalies between both lists.

### **Cefn Rodyn Home for the Elderly, Dolgellau**

A member asked for further explanation regarding the second bullet point in the Audit Opinion, that "the monthly breakdown of staff wages must be checked thoroughly to ensure that the Council is not paying wages to an individual that does not work for the Home and to avoid duplicate payments."

In response, the Senior Manager – Audit and Risk said that no losses or fraud deriving from the management weaknesses had been found, however, it was possible in this case that expenditure was coded to the wrong establishment. The matter was discussed with the Head of Provider and Leisure Department and the relevant Senior Managers and they were eager for the managers to receive further training.

### **Bangor Railway Station Scheme**

The Senior Manager – Audit and Risk reported that the Senior Managers had asked Internal Audit to undertake a review of the arrangements of the abovementioned scheme following officers' doubt of the viability of the project by now and the frustration that was felt from collaborating with one of the partners. He noted that the purpose of the audit was to review the Consultancy service's work files and to discuss the scheme with the Group Engineer (Consultancy Service) and the Chief Transportation and Street Care Engineer, namely the client. The lack of visible development after nine years at Bangor station was a cause for concern. The Council officers felt that this project had been laborious and there was a need for the external company to collaborate with the Council in order to be able to progress with the project

because, should this not happen, there was a possibility that the various grants could be lost. It was not appropriate to provide the usual Opinion Category for this particular audit as the Council was dependant upon an external company to co-operate and to collaborate in order to achieve the objectives.

**RESOLVED to support the audit's opinion but to press on Network Rail to collaborate with the Council in order to drive the project forwards as soon as possible.**

**Overspend at Ysgol Maenofferen, Blaenau Ffestiniog**

(The meeting was chaired by the Vice-chair during this item as the Chair had declared a personal interest.)

The Senior Manager – Audit and Risk reported that the budgetary controls at Ysgol Maenofferen had been audited, together with procedures within the Development Finance Unit because a significant overpayment was predicted by the end of the 2008/09 financial year. The financial transactions made between 2005 and 2008 were audited along with the first term of the 2008/09 financial year. He noted that the main findings of the audit was the former Head teacher had not prepared appropriate monitoring reports showing substantial variations against the budget for the Finance Sub-committee or the Full Board of Governors on a regular basis. The audit's opinion was that had the former Head teacher prepared appropriate monitoring reports showing any substantial variations to the Finance Sub-committee/Full Board regularly, the overspend on the various headings would have been identified and perhaps questioned further by the governors. No evidence was seen of attempts by the governors to obtain the information. He emphasised that it was essential to have a constructive relationship between school governors and the Head teacher and that training for governors was essential in order for them to know what information to request for.

A member asked whether it would be possible for the Education Finance Technician to meet the Finance Sub-committee once each term. In response, the Head of Finance Department said that it would not be possible in all practicality for the technicians to attend the governing body meetings of all schools in Gwynedd, however, he noted that the usual procedure was that the technician would hold meetings with the head teachers to discuss the budget and subsequently the heads would report back to their governing bodies. However, in this particular case, due to the difficulties experienced in the past, he did not anticipate that there would be any difficulty in the Education Finance Technician and the Education Senior Manager to meet the Finance Sub-committee during the current term.

Another member noted that messages that were important to all school governors derived from this report and she was of the opinion that the governing bodies of all schools should receive a copy of the report. In relation to the report's main findings and in particular the first recommendation, she was of the opinion that the wording of the recommendation should be amended to read – "All governing bodies should have a Finance Sub-committee, and they should insist that they receive regular monitoring reports in accordance with their statutory duties." Also, in relation to the fourth recommendation, she was of the opinion that the word 'consideration' should be deleted from the first line in order for it to read "In order to strengthen governance arrangements, an arrangement should be

established where the Development Finance Unit contact the Chair of Governors of the school in question directly in addition to notifying the head when there is a significant overspend on school finance headings”.

In response to the above-mentioned observations, the Head of Finance Department said that it was statutory that the Full Governing Body of each school gave the budget its seal of approval. He was of the opinion that the individual schools should have the flexibility to decide how they as a governing body would monitor the school’s financial situation. He agreed that the word “consideration “should be deleted from the first line of the fourth recommendation.

The Legal Services Manager drew attention to the fact that it was a matter for each governing body to establish the school constitution and the Council should not insist that it held sub-committees.

**RESOLVED to agree with the audit’s opinion with the amendments noted.**

**RESOLVED to accept the other reports on the Internal Audit Section’s work for the period between 1 June and 31 August 2009 and to support the recommendations already submitted to the managers of the relevant services for implementation.**

## **5. INTERNAL AUDIT PLAN 2009/10**

Submitted – the report of the Senior Manager - Audit and Risk providing an update of the current situation on completion of the 2009/10 internal audit plan.

He provided details of the situation as at 31 August 2009 along with the time spent on each audit to date. The following table was highlighted, which revealed the current status of the working the operational plan -

<b>Audit Status</b>	<b>Number</b>
Planned	61
Staff booked	1
Working Papers Created	8
Field work started	21
Field Work Ended	2
Manager Review	2
Draft Report Issued	4
Report Agreed	2
Final Report Issued	3
Total	<b>104</b>
Cancelled	1

He said that the performance target for 2008/09 was 95%. At the end of quarter 2, as part of the usual performance monitoring arrangements, consideration would have to be given as to whether or not temporary additional resources will be required in order to complete the plan, whilst giving due consideration to the associated costs of doing so. The draft audit plan was based on audit resources of 1,573 audit days being available to

Gwynedd Council. However, because of the prospects of long-term illness, the predicted resources had to be reduced before the end of the first quarter, and the section's final business plan was based on 1,441 days being available to undertake Gwynedd Council's internal audits. He drew attention to the fact that the audits contained in the draft plan, but had not included in the final plan, had been moved to the draft 2010/2011 plan and he provided details of these to the members.

In relation to amending the plan, the officer said that the IT audit plan had been refined so that Internal Audit would concentrate this year on ensuring compliance with CoCo requirements, which were computer system security standards ("Code of Connection") that had to be complied with if the Council was to share data with Government agencies. This would mean that ICT Contracts would not be audited this year, and the scope of the audit on IT goods ordering arrangements had been reduced also. In addition, tendering for banking services would now not take place until 2010/2011, meaning that the audit days that had been allocated for this work had been reduced from 12 to two days.

This would allow Internal Audit to ensure, before the end of March 2010, that a timetable for the process had been established.

**RESOLVED to note the contents of the report as an update on progress against the 2009/10 audit plan.**

**6. TREASURY MANAGEMENT 2008/09**

Submitted – the report of the Head of Finance Department that CIPFA's Code of Practice on Treasury Management was adopted by the Council on 4 March 2003 and that the Council had fully complied with its requirements. He noted the actual results of the Council's treasury management activity during 2008/09 against the strategy which was set out for the financial year in March 2008.

The report provided details of Gwynedd Council's treasury management portfolio position on 31 March 2008 and 31 March 2009, interest rates, borrowing, debt rescheduling, investments and compliance with Treasury Limits.

**RESOLVED to accept the report for information.**

The meeting commenced at 10.00am and concluded at 12.30pm.