
AUDIT COMMITTEE, 11.03.10

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

Councillors: E.T. Dogan, Tom Ellis, Margaret Griffith, Dafydd Ll. Hughes
R.L. Jones, Eryl Jones-Williams, John P. Roberts, Ioan Thomas

Also present: Dewi Morgan (Senior Manager - Audit and Risk), William E. Jones
(Senior Finance Manager), Amanda Hughes (Local Manager – Wales Audit Officer),
Gwyn Parry Williams (Committee Officer).

Apologies: Councillors Selwyn Griffiths, Brian Jones, Charles W. Jones, Gethin
Williams and Dafydd Edwards (Head of Finance Department).

Bereavement

The Chairman referred to the bereavement suffered by Dewi Morgan, the Senior
Manager - Audit and Risk, in losing his father-in-law and he extended his
condolences to him and his family in their loss.

1. **DECLARATION OF PERSONAL INTEREST**

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

Councillors E.T. Dogan, Huw Edwards, Tom Ellis, Margaret Griffith, Dafydd
Ll. Hughes, R.L. Jones, Eryl Jones-Williams, John P. Roberts, Ioan Thomas
and Gwilym Williams in the item Primary Schools – Recruitment
Arrangements for Auxiliary Staff and Supply Teachers as they were primary
school governors.

Councillor Dafydd Ll. Hughes in the item Learning Disabilities – Suitable Living
Accommodation (Three Year Plan) as he was a community nurse working
with people with learning disabilities.

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.

2. **MINUTES**

» The Chairman signed the minutes of the meeting of this committee held on
14 January, 2010, as a true record.

3. **THE COUNCIL'S ASSET REGISTER SYSTEM (FINANCE)**

Submitted – the report of the Senior Finance Manager explaining that it had
been reported to a meeting of this committee held on 28 September 2009, in
the wake of the Council's 2008/09 Final Accounts report, that the Finance

Department's Capital and Control Unit had been in the process of implementing a new system to record the Council's assets for financial management purposes. He noted that the need for a new system emanated from changes and new requirements to the CIPFA SORP (Statement of Recommended Practice) 2007, which outlined the need to prepare and account for assets in a different way. The main changes were related to ensuring that historical costs (as well as current costs) were maintained for each asset. This then had an effect on the profit/loss calculation on the disposal of assets and also additional details regarding impairment and enhancements.

The officer notified the committee that the old system, on Excel format, was no longer suitable to deal with the new requirements, and it had been essential to consider an appropriate system. Three appropriate systems had been considered and three suppliers had been invited to present their system to a small user group. It had been decided to proceed with the 'IPF Asset Manager.net' system which was run by a company that was owned outright by CIPFA. The decision was based on -

- a) Its suitability and capability to fulfil the relevant requirements.
- b) Its relationship with CIPFA and all the other traditional public sector contacts, and therefore its unique position in being able to utilise CIPFA's research and leadership to ensure that the software adhered to financial requirements, and the ability to update in the future.
- c) Its flexibility for the future should the Property Service wish to opt into the system.
- ch) Price.

It was noted that the company had provided initial training, with the intention of starting on the work of transferring data from the current system to the new system during the second half of the 2008/09 financial year. Unfortunately, difficulties had been encountered when the company had attempted to map the data between the two systems which had led to a delay in the original timetable. As a result, it had been necessary to complete the closure of accounts process for 2008/09 with the old system. Following the 2008/09 closure of accounts process with a new appointment in a relevant post to assist with the work, it had been possible to make significant progress with the process, which was now drawing to a close. The Wales Audit Office would be verifying the new system prior to the start of the 2009/10 year end process.

Although the transfer process had not generally been as smooth as had originally been hoped and some aspects of the new system had proved to be disappointing, it was intended that the new Asset Register (Finance) system would be operational for the 2009/10 year end process.

In response to a member's question regarding the transfer of 6,000 council houses to Cartrefi Cymunedol Gwynedd, the officer notified the committee that ideally, every asset would have been registered individually, and in light of the transfer, all of these properties would be deleted from the Council Asset Register.

A member asked what software other councils used. In response, the Local Manager – Wales Audit Office notified the committee that it would be possible to make enquiries with other councils.

RESOLVED to accept the report.

4. ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN THE PUBLIC SECTOR

Submitted - the report of the Senior Finance Manager. An outline of the requirements for adopting International Financial Reporting Standards (IFRS) in the public sector had been submitted to this committee in March 2008. The officer noted that the benefit of moving to IFRS was consistency and comparability between financial reports across the world. The Central Government and the Health Service would prepare their financial statements for 2009/10 on an IFRS basis. Local Government was required to comply with the new requirements from 2010/11 financial statements onwards. However, the need for comparative figures in those financial statements necessitated a restatement of 2009/10 information and the Balance Sheet as at 31 March 2009 on an IFRS basis.

The officer provided details of the main differences between the preparation of the financial statements under existing UK Generally Accepted Accounting Practice (GAAP) and the new requirements under IFRS as follows -

- a) Recognition and measurement of any Private Finance Initiative and similar contracts.
- b) Recognition and measurement of leasing arrangements.
- c) Accrual of any employee leave entitlements, such as annual holidays, which had not been used at the end of the financial year.
- d) More detailed requirements for fixed asset accounting including analysing properties into components, more frequent valuations and reviews of assets and changes in the categories of assets to be shown.
- e) Segmental Reporting which analysed the results for the year into business 'segments' which usually reflected the management structure or business divisions of the organisation.
- f) Additional disclosure requirements. The average length of private sector accounting statements increased by over 50% after moving to IFRS.
- g) The resources required for the implementation of these new requirements would have a financial impact on the Council.

It was noted that the 'Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 Based on International Financial Reporting Standards' had already been published to enable local authorities to restate their financial statements before 2010/11. A project team had been established and the work of assessing impact, setting a timetable and gathering essential information was ongoing. In relation to the planned action, there was no statutory requirement for the completion of the restatement work other than to publish the restated figures in the 2010/11 accounts by 30 June 2011. However, the plan was to complete the restatement work by 30 September 2010 and complete the audit of the restated information by 31 December 2010. This would enable any lessons learned to be built into the closure process for the 2010/11 financial statements and the required information to be collected for the first IFRS compliant statement of accounts within the usual timetable.

A member referred to the fact that the annual holiday year of staff members started on the month they commenced employment with the Council, and therefore it was not a requirement for the majority of staff to use their annual leave before the end of March. He asked what effect this had had on the financial statements in comparison with the former annual holiday procedure

of 1 April to 31 March. In response, the officer notified the committee should the former annual holiday arrangement still exist, it would have been easier to establish the value of the leave not taken at the end of March for accounting purposes, compared with the procedure which currently existed for the majority, where the annual holiday year ran from the commencement date e.g. if an officer had been appointed to commence work with the Council on 1 September, then the annual leave year would run from 1 September to 31 August.

Another member was of the opinion that the Council should be asked to go back to the former arrangement, namely, from 1 April to 31 March every year. However, the opinion of most of the other members was that the current procedure seemed to be working well.

RESOLVED to accept the report, note the progress to date and support the action planned.

5. OUTPUT OF THE INTERNAL AUDIT SECTION

The work of the Internal Audit Section for the period to 31 January 2010

Submitted – the report of the Senior Manager - Audit and Risk outlining the Internal Audit Section's work in the period between 1 December 2009 and 31 January 2010. In relation to the information on the work completed during the period, the officer referred to -

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

Details of further work Internal Audit had in the pipeline were reported upon. This included seven draft reports which had been released and 29 audits which were ongoing.

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

Primary Schools – Recruitment Arrangements for Auxiliary Staff and Supply Teachers

The Senior Manager - Audit and Risk reported that this audit had been graded as Opinion Category C. It was noted that the purpose of the audit was to look at the process of recruiting auxiliary staff and supply teachers in Gwynedd primary schools. The main findings deriving from the audit were that there was not always enough evidence at the schools to confirm that the Recruiting Panel / Governing Body had been involved in the staff recruiting process as the schools did not keep evidence of the process. The Education Department had been asked to correspond with all schools to explain the findings of the audit and to list the recommendations that each school was expected to implement when recruiting staff.

A member asked for a definition of a supply teacher. In response, the officer notified the committee that the report had differentiated between auxiliary staff

and short term and long term teachers. Another member was of the opinion that the Education Department should include details of the definition of a supply teacher.

A member referred to a clause in the audit opinion which referred to the fact that CRB documents should be destroyed after six months unless there was a specific reason for keeping them for a longer period. In response, the officer informed the committee that the Data Protection Act noted that details of any individual should not be kept for longer than what was relevant.

Exemptions from Corporate Training Arrangements

A member asked what the justification was for some officers not to attend training. In response, the officer notified the committee that the Council had already adopted a training matrix. He referred to the fact that some officers were being made exempt from attending some training sessions by their managers on the grounds that it was not relevant to their post. In many cases, this had been reasonable, but there had been examples where managers had approved such exemptions even when the training was for fields where there was a need to develop skills, and this was undermining the Council's whole ethos regarding staff development. Staff training and development was one of the Council's main priorities. He noted that he had received a request from the Human Resources department to submit a presentation on the issue to the Senior Managers' Academy and that he would convey the concern of this committee to that meeting.

A member drew attention to the fact that the majority of courses/training was held in Caernarfon and enquired whether it would be possible to hold some in Dolgellau. In response, the officer notified the committee that courses were being held at Caernarfon and Penrhyndeudraeth.

Precepts

In relation to the transfer of Council housing to the new company, a member referred to the fact that he had discovered through the Treasury and the Assembly that the pensions situation was not entirely clear for staff who would be transferred and that this could incur high costs for the Councils. He stated his concern that this could put the Council at risk. In response, the Senior Finance Manager notified the committee that it would be a requirement for the pension deficit at the time of the transfer to be funded by the Council. He noted that the size of any deficit would reflect the general state of the market.

It was agreed to note the members' concerns regarding the situation.

Compliance with the Code of Connection (CoCo)

A member asked whether or not the Citrix system had improved. In response, the Senior Manager - Audit and Risk notified the committee that he had discussed the issue with the Senior Manager – IT and Business Transformation. The Council had joined the Public Sector Broadband Network which meant that the system would be developed in the coming months.

Social Services Data Collection for the Purpose of Performance Management

The Senior Manager - Audit and Risk reported that this audit had been graded as Opinion Category C. This matter had been addressed by the Social Services Department and also within the Joint Review. He noted that arrangements were in the pipeline within the Social Services Department to improve the procedures audited with the newly established Business Unit.

Children – Adoption, Residential Order and Special Guardianship Allowances

The Senior Manager – Audit and Risk provided an outline of the purpose, scope and main findings of the audit. The audit had been graded as Opinion Category C as the assurance of financial propriety could not be given in the administration.

A member drew attention to the lengthy process of paying parents and asked whether or not it could be possible to improve the process. In response, the Senior Finance Manager notified the committee that the Council had resolved to take action to pay creditors sooner and that this had been commended by many, especially during the recent period of recession.

Integration Overspend - Education

The Senior Manager – Audit and Risk reported that the purpose of this reactive audit was to discover how a substantial overspend on the budget for integrating pupils with special education needs into the mainstream became apparent during the second quarter review, and what factors had contributed towards the overspend, along with the inability to detect it sooner. In relation to the main findings, a significant growth had been witnessed in the integration hours provided. He noted that it was intended to hold a further investigation by independent specialists into aspects of the trends and requirements in this area in comparison with other authorities. A report to the Leadership Group was expected during 2010.

A member welcomed this work. He was of the opinion that the 3* regime had been a good system when established, but it had been misused by some schools over the years.

RESOLVED to accept the report on the Internal Audit Section's work for the period between 1 December 2009 and 31 January 2010 and to support the recommendations already submitted to the managers of the relevant services for implementation.

6. 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 28 February 2010 along with the time spent on each audit to date. The following table was highlighted, which revealed the current status of the work in the operational plan -

| Audit Status | Number |
|------------------------|---------------|
| Planned | 17 |
| Staff booked | 1 |
| Working Papers Created | 6 |
| Field work started | 21 |
| Field Work Ended | 4 |
| Awaiting Review | 2 |
| Draft Report Issued | 7 |
| Final Report Issued | 48 |
| Total | 106 |
| Cancelled | 6 |

On the basis of the audit status on 28 February 2010, the officer provided details of those audits from the 2009/10 operational plan that would not be completed. This meant that 99 out of the 106 audits in the operational plan would be completed, which was 93.4%. He noted that this was a little short of the target of 95%, but the departure of two senior auditors during the last quarter of 2009/10 had meant missing the target by two audits.

In relation to amending the plan, the officer notified the committee that some amendments had been made to the operational audit plan since the previous meeting of the committee.

A member asked what the definition of an Area School was. In response, the Senior Manager – Audit and Risk said that these were schools that received additional grant funding from the Assembly to assist them in developing activities and facilities for the local community.

In relation to the Social Services' formulae for unit cost, a member asked for an explanation on the issue. In response, the officer notified the committee that this issue was in the Joint Review action plan, meaning that there was a need to hold reviews of social services' unit costs.

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

7. DRAFT INTERNAL AUDIT PLAN 2010/11

Submitted – a report providing details of the draft plan of the Internal Audit Section's work for the 2010/11 financial year in order for members to voice their opinions on it and approve it, subject to further discussions with senior officers.

The Senior Manager – Audit and Risk 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 to produce the plan before submitting it to the committee.

At its meeting on 20 December 2007, the 2008-2011 Internal Audit Strategy had been approved by the Audit Committee. This strategy had formed the

basis of Internal Audit work for the period in question and it had explained how the Internal Audit work would offer assurance on the internal controls that had been in place within Gwynedd Council.

On the basis of analysing the available staffing resources, including the consideration of reasonable budgets for 'unproductive' work such as holidays, illness, management and meetings, it had been anticipated that a resource requirement of 1,557 audit days would be available to complete the audit plan. This had taken place after considering provisions for advising on controls and propriety, responsive work and follow-up work.

It was noted that systematic stages were used to prepare a risk-based audit plan and he provided details of those stages, in order to assure the committee that there was logic behind the development of the plan.

It was intended to hold discussions with the relevant heads of departments and managers before commencing the audits and their suggestions would be incorporated in the final plan.

At a member's request, it was agreed to include the Primary and Secondary Language Units in the plan.

A member noted that a number of the issues noted in appendix 2 of the report had already been included in the 2009/10 plan and asked for an explanation. In response, the officer notified the committee that there were various reasons for including them in the 2010/11 plan. Some had been included as funding conditions required an annual audit, others because there had been a slippage from 2009/10 and others as they were audits of areas of high risk.

In relation to Cist Gwynedd, a member drew attention to the fact that 90% of those who received sponsorship funding from that body did not send people on courses/training and that this should be addressed.

RESOLVED to approve the draft audit plan for the period 1 April 2010 to 31 March 2011, subject to minor amendments to be undertaken by the Senior Manager – Audit and Risk, in consultation with the Head of Finance Department, following further discussions with officers.

The meeting commenced at 10.00am and concluded at 11.30am.