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## AUDIT COMMITTEE, 08-07-10

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**Present:** Councillor John P. Roberts (Chairman);  
Councillor Gethin G. Williams (Vice-chairman)

**Councillors:** E.T. Dogan, Tom Ellis, Huw Edwards, Margaret Griffith, Selwyn Griffiths, Dafydd Ll. Hughes, Charles W. Jones, Evie M. Jones, R.L. Jones, Ioan Thomas, Gwilym O. Williams and Dylan Edwards (Finance Portfolio Leader)

**Also present:** Dafydd Edwards (Head of Finance Department), Dewi Morgan (Senior Audit and Risk Manager), William E. Jones (Senior Finance Manager), Ffion M. Evans (Resources and Corporate Finance Manager), Helen Williams (Principal Capital and Management Accountant), Marina Parry Owen (Pensions and Investments Officer),  
Amanda Hughes (Local Manager – Wales Audit Office),  
Gwyn Parry Williams (Committee Officer).

**Apologies:** Councillor Dewi Owen

**1. CHAIRMAN**

**RESOLVED to elect Councillor John P. Roberts as Chairman of the Committee for 2010/11.**

The member gave thanks for the honour and he also thanked the former chairman, Councillor Gwilym Williams, for his service for the past two years.

**2. VICE-CHAIRMAN**

**RESOLVED to elect Councillor Gethin G. Williams as Vice-chairman of the Committee for 2010/11.**

**3. DECLARATION OF PERSONAL INTEREST**

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

Councillors Charles W. Jones and R. L. Jones in the item involving Ysgol Brynrefail as they were members of the school's governing body.

Councillor Gethin G. Williams in the item involving Ysgol Y Gader as he was a member of the school's governing body.

Councillor T.G. Ellis in the item involving Ysgol Syr Hugh Owen as his son was a teacher at the 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.

#### **4. MINUTES**

The Chairman signed the minutes of the meeting of this committee held on 11 March, 2010, as a true record.

#### **5. STATEMENT OF ACCOUNTS 2009/10**

Submitted – the statutory Statement of Accounts for the 2009/10 financial year providing details of the Council's financial activities during the year which ended on 31 March 2010.

The Head of Finance Department explained that, to date, the draft 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 27 September 2010. 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 the document had now become very technical.

A report regarding the accounts had been presented to the Council Board on 15 June 2010. That report was more useful for internal/management purposes, while the Statement of Accounts was more suited for external / governance purposes.

The Head of Finance Department noted that the Audit Committee had been "those responsible for governance" on behalf of the Council and had approved the draft statement of accounts in the past. However, the 2010 adaptations to the Accounts and Audit Regulations had given the responsibility for approving and certifying the draft accounts prior to 30 June 2010 to the Statutory Finance Officer (the Head of Finance Department at Gwynedd Council). By now, elected members did not need to approve the statement on the "conditional on audit" step, but it would be submitted to this committee for information.

The Head of Finance Department further noted that the statement, along with all other relevant financial statements, would be the subject of an annual audit by the Wales Audit Office, following certification by him and consideration by the committee. 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. In relation to Note 6 – Payments to Employees, the officer referred to the fact that the Assembly had adapted some guidelines after 30 June 2010. Previously, the Council had been asked to include the employer's pension contribution as payment in note 6(a); however, confirmation had been received from the Assembly in recent days that this interpretation had been inaccurate and revised details had been submitted on the basis of the new interpretation. Several questions were raised by the members in relation to the accounts and the officers responded to them.

In relation to the fund of the late Mrs Florence Merthyr Guest Morgan, a member referred to the fact that there were four different streams to this fund. In light of the fact that the Charities Sub-committee had now been abolished, she asked where the opportunity would arise now in terms of questioning and

influencing the expenditure of the various elements of the fund. She suggested that the details should be submitted for consideration by the Dwyfor Area Committee. The officer promised to consider the matter further.

Members were reminded that the Pension Fund accounts would be submitted to all the fund employers in an Annual Meeting on 20 July 2010.

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

**RESOLVED to accept and note the Statement of the Council's Accounts (subject to audit) 2009/10.**

## **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 2009/10 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 of 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. Following a consultation process, the Accounts and Audit Regulations (Wales) 2010 had come into force in March and April 2010. These regulations had amended – rather than replaced – the 2005 regulations. There had been an expectation that the regulations would make an Annual Governance Statement, containing information beyond the requirements of a Statement of Internal Control, mandatory. This would make the requirements on local authorities in Wales consistent with the current requirement on authorities in England. These changes had not been included in the regulations, but the Assembly Government had intimated that this requirement might be in place by next 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 – 18) 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. To this end, a data base had been used to collect evidence to support the content of the Governance Statement. Information from several sources was used in preparing the statement including the Council's constitution, internal and external audit reports, the Council's Three Year Plan and its Financial Strategy.

**RESOLVED to approve the Annual Governance Statement, incorporating Gwynedd Council's Statement of Internal Control for the 2009/10 financial year and the period since the balance sheet date.**

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

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

Submitted – the report of the Senior Audit and Risk Manager outlining the Internal Audit Section’s work in the period between 1 February and 31 May 2010. In submitting the information on the work completed during the period, the officer referred to -

- 36 formal reports on audits from the annual audit plan with the relevant opinion category shown for each one.
- 11 audits where memoranda had been produced, rather than full reports.
- Five follow-up audits.
- Two responsive audits.

Details of further work that Internal Audit had in the pipeline were reported upon. This included 12 draft reports which had been released and 19 audits which were ongoing.

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

### **Raise Project (Social Services)**

At a member’s request, it was agreed that a report be submitted to the next meeting of the committee.

### **Arrears of Dinner Money, Primary Schools**

In response to observations by a member, the Senior Audit and Risk Manager noted that the Education Department had now introduced new guidelines for the schools – this had happened at around the same time as the work on this audit. He noted that, as there were over one hundred primary schools in Gwynedd, the arrangements were likely to vary from one school to another and it needed to be ensured that the same standards were upheld in each school.

### **Ysgol Brynrefail**

The Senior Audit and Risk Manager drew attention to the fact that audit tests had been held on 102 internal controls at the school and the tests had shown that good internal controls existed in 101 of these areas. This was an excellent result and evidence that robust administrative, governance and management arrangements were in place at the school.

### **RESOLVED**

- a) To write to the head teacher of the school congratulating him on the excellent performance.**
- b) To also write to the other services within the Council which are noted in the report to have received an opinion category of “A” and that this should be done with all reports which receive an opinion category of “A” in future.**

### **Audits in relation to the Finance Department**

Reference was made to four audits on aspects of the Finance Department which had also received an opinion category of “A” during the period in question.

## **Arrangements for Registering Births, Deaths and Marriages**

In response to a question by a member regarding the registration service, the Senior Audit and Risk Manager noted that management changes had happened with registrars recently with the majority of the administrative work being undertaken within the Council rather than by the General Register Office. Each registrar had a separate procedure for obtaining money and that money was then included in suspense accounts which then needed regular reconciliation in order to ensure appropriate financial arrangements. It had been found that the Accounts Department did not receive the information from the registrars immediately. In addition, the banking arrangements had not been undertaken very regularly and concern was expressed about the reconciliation arrangements within the Democracy and Legal Department. He noted that work was afoot to collaborate more with the Contact Centre. It was intended to undertake follow-up work in approximately six months' time.

In response to an enquiry by a member in relation to the Siebel system, the Senior Audit and Risk Manager noted that this was the name of the "Customer Relationship Management" software package which was used at the Contact Centre.

## **Election Arrangements**

A member referred to the fact that he had noticed recently that the names of three deceased people had appeared on the electoral register within his constituency and that the register should be reviewed regularly. In addition, in relation to the electoral register, another member referred to the fact that he had noticed that, with the names of some electors which appeared on the electoral register in his constituency, a few addresses which were part of a housing estate or terrace had been noted separately on the register and this had caused problems at times when finding the names on the register. In response, the Senior Audit and Risk Manager noted that the administration of the electoral register was one of the audits in the pipeline for 2010/11 and that this was not relevant to the audit on Election Arrangements. In relation to that specific matter, it was suggested that the matter should be brought to the attention of the service and for them to look at a more logical system.

**RESOLVED to accept the reports on the Internal Audit Section's work for the period between 1 February and 31 May 2010 and to support the recommendations already submitted to the managers of the relevant services for implementation.**

## **8. THE ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT 2009/10**

Submitted – the annual report of the Senior Audit and Risk Manager for 2009/10. 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 2009/10 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 had been found within each of the Council's individual services.
- b) Where significant internal control weaknesses had been found, these matters were resolved by the Council's officers, or otherwise 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 audit work, he noted that the final revised audit plan for 2009/10 had included 106 audit tasks. Of these, 101 assignments had been completed, representing 95.3% of the plan. Reference was drawn to the way in which internal audit reports were categorised. From the reports relevant to the 2009/10 plan, 87% had received an “A” or “B” opinion which was a vast improvement compared to the corresponding figure of 80% for the 2008/09 plan and 70% in 2007/08.

The officer noted that a final memorandum had been released for 16 follow-up audits during the period from 1 April 2009 to 31 March 2010 and each one of these audits had received an opinion of “acceptable” or “excellent”. This suggested that there were robust arrangements within the authority to implement audit recommendations in order to strengthen internal controls and manage risk.

The officer referred to the analysis of the use of Internal Audit resources in 2009/2010. He drew attention to the increase in the days lost due to sickness from 34 in 2008/09 to 164 in 2009/10. This had mainly been due to the long-term sickness periods of two officers during the year. Despite the significant increase in sickness, a further reduction had been seen in the time spent on other unproductive activities. He noted that, despite the reduction in the commitment to Snowdonia National Park Authority, an increase had been seen in the total number of days spent on productive work for Gwynedd Council, from 1,738 days between 1 April 2008 and 31 March 2009 to 1,770 days for the same period in 2009/10.

The results of the 2009/10 performance indicators were presented and an explanation was provided of the reasons for failing to reach some targets.

In considering the compliance with the code of practice, an update was provided of action on the recommendations of the Wales Audit Office in its annual assessment for 2009.

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

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

Submitted – the report of the External Auditor noting that the Code of Audit Practice issued by the Auditor General 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 had been of the view that the Council had an effective internal audit service and it complied on the whole with the CIPFA Internal Audit Code of Practice standards. However, the Head of Internal Audit Service had some operational responsibilities that were not consistent in a technical sense with the independence standard. It was noted that following a discussion with the Head of Finance Department the External Auditor had understood that the Council would not change its structure. In addition, the Wales Audit Office report had noted that there were some weaknesses in relation to the standards of submitting reports, performance, quality and efficiency. In an attempt to improve the service performance, the External Auditor from the Wales Audit Office recommended the following -

- a) To remind the Heads of Service of the need to respond to an Internal Audit in accordance with the timetables agreed to in order to ensure that final reports could be submitted in a timely manner.
- b) To develop further the set of performance targets in order to provide a comprehensive range of indicators to be considered by the manager and the Audit Committee.

A member referred to the need for Heads of Departments to respond in a timely manner to the Head of Internal Audit having received draft audit reports, and that this should be drawn to their attention.

**RESOLVED to accept the report.**

**10. FINANCIAL AUDIT STRATEGY OF GWYNEDD COUNCIL**

Submitted – the report of the External Auditor noting that a Financial Audit Strategy had been prepared to satisfy the requirements of the auditing standards and proper audit practices. She noted that the Appointed Auditor was required to examine and certify the accounts of the Council, satisfying himself that the accounts –

- a) gave a true and fair view of the Council's financial position;
- b) complied with all the relevant legal requirements; and
- c) had been prepared in accordance with proper practice.

In addition, the Appointed Auditor was required to –

- i) satisfy himself that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- ii) certify that the audit had been completed in accordance with the Public Audit Act 2004 (in particular in relation to electors' rights); and
- iii) certify grant claims and returns.

In addition, the Appointed Auditor must comply with International Standards on Auditing which required formal reporting at various stages during the audit to those charged with governance.

It was noted that, in planning their work, auditors were required to identify and report significant risks that related to the accuracy and reliability of the financial statements. Details were given of the risk and proposed steps to address those risks. It was noted that the Council had a robust financial strategy.

She drew attention to the financial audit fee of £177,791 (plus VAT) for 2009/10 which was an increase of 1.75% on the equivalent element of the Appointed Auditor's responsibilities included as part of the fee in 2008/09. A member referred to the need for the Council to cut its budgets and, similarly, the Wales Audit Office should take appropriate steps in order to be able to curb its level of fees.

**RESOLVED to accept the report.**

#### **11. FINANCIAL AUDIT STRATEGY 2009/10 OF THE GWYNEDD PENSION FUND**

Submitted – the report of the External Auditor noting that the Council was the administering authority for the Gwynedd Pension Fund and until 2008-09, the Pension Fund audit had been undertaken as part of the audit of the Council's accounts. However, the Auditor General had determined that the audit of pension funds must be treated, as far as possible, as separate audits. This change improved the audit's contribution to maintaining high standards of governance and ensured that undivided attention was given to Pension Fund specific accounting and auditing requirements.

She noted that she was required to issue an audit opinion which stated whether the Pension Fund accounts and related notes gave a true and fair view of the financial transactions of the Pension Fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year. This would provide assurance that the Pension Fund accounts -

- a) were free from material misstatement, whether caused by fraud or other irregularity or error;
- b) complied with the statutory and other applicable requirements; and
- c) complied with all the relevant requirements for accounting presentation and disclosure.

In order to issue the audit report on the Pension Fund accounts, it was a requirement to ensure that all significant operational and financial risks that could impact on the audit were identified and addressed.

In relation to the audit fee, the officer noted that it had been decided to set the fee for 2008/09 at the minimum level of £25,000 (plus VAT). The fee was determined on the basis of the work necessary to discharge her duties as external auditor.

**RESOLVED to accept the report.**

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