
AUDIT COMMITTEE, 27.09.10

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

Councillors: E.T. Dogan, Huw Edwards, Margaret Griffith, Selwyn Griffiths, Charles W. Jones, Dewi Owen, Ioan Thomas, Gwilym O. Williams

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), Adrian Williams (Traffic and Development Manager), Amanda Hughes (Local Manager – Wales Audit Office), Alan Hughes (Financial Audit Team Leader – Wales Audit Office) and Gwyn Parry Williams (Committee Officer).

Apologies: Councillors Aeron M. Jones, Evie M. Jones, R.L. Jones, Richard Ll. Jones

1. DECLARATION OF PERSONAL INTEREST

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

Councillors Margaret Griffith and Selwyn Griffiths in the item involving Ysgol Eifionydd, Porthmadog as they were members of the school governing body.

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 8 July, 2010, as a true record.

3. OUTPUT OF THE INTERNAL AUDIT SECTION

a) A report to be considered at the request of the Chairman – Traffic Orders

The Senior Audit and Risk Manager reported that the Committee's Chairman had requested that officers from the Regulatory Department should attend the meeting in order to respond to any questions that may arise from the "Traffic Orders" internal audit report.

This followed a consideration of the internal audit reports released during the period between 1 June and 31 August 2010. The officer added that the purpose of the audit was to ensure that regulations were in place for adopting traffic orders on Gwynedd Council county roads. He noted that the Welsh

Assembly Government was responsible for traffic orders on Gwynedd trunk roads.

The report received a C Audit Opinion, namely, that assurance of financial propriety could not be expressed in the Regulatory Department's arrangements for creating and implementing Traffic Orders as the controls in place could not be relied upon, but losses/fraud due to these management weaknesses had not been discovered. He noted that audit tests were carried out on 27 internal controls, and the tests showed that good internal controls were in place in 11 of these areas. The Senior Audit and Risk Manager notified the committee of the main findings of the audit, namely -

- a) Incorrect instructions sent to the Legal Unit
- b) A lack of policy and guidance documenting the arrangements for deciding to implement and adopt speed restrictions in Gwynedd.
- c) Difficulties in tracing the history of implementing an order due to the filing system within the Transport and Street Care Unit.

The officer noted that this audit was a follow up from similar audits undertaken a few years ago. He referred to an incident near the Bangor Crematorium in 2006/2007 where many drivers were fined for speeding within a 30mph restriction, however the Crown Prosecution Service had decided that it could not continue with the prosecutions on technical grounds as two traffic orders existed on this part of the road and that one of them should have been revoked. Similar incidents had taken place in Bala and near Clynnog. It should be ensured that no such incidents take place in the future. He further noted that the audit had been held in order to discover how they had progressed since 2007 in order to ensure that those mistakes did not occur again. Unfortunately, it was realised that movement had been relatively slow and that the same mistakes could occur again and that assurance from the Regulatory Department was needed that they would act to prevent mistakes from occurring again in the future. The financial risk for the Council might not be high, but it was possible that the Police could bring a case against the Council based on officer negligence.

In response to the abovementioned points, the Traffic and Development Manager notified the committee that the matters referred to in the report had been taken seriously and that an officer from the department had audited the relevant files in the Legal Unit in order to ensure that the same mistakes did not happen again. Every effort was made to search for old orders for a site, and should they exist, they would be revoked in the new order.

RESOLVED to accept the report and to support the recommendations submitted to the Regulatory Department managers for implementation.

b) The work of the Internal Audit Section for the period to 31 August 2010

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

- 24 formal reports on audits from the annual audit plan with the relevant opinion category shown for each one.
- Five follow-up audits.

- One responsive audit.

The officer drew attention to the fact that at the July 2010 committee a request was made for further details regarding an audit of the RAISE system and he provided members with details of the background of the audit.

Details of further work that Internal Audit had in the pipeline were reported upon. This included six draft reports which had been released and 42 audits which were ongoing.

Consideration was given to each executive summary within the individual appendices and during the discussion reference was made to the following matters -

Welsh Assembly Government Grant for Community-focused Schools

A member asked for an explanation regarding the recommendation that “appropriate invoices that correspond with the estimate sheets received should be obtained to support Ysgol Syr Hugh Owen’s 2010 spring term claim.” In response, the Senior Audit and Risk Manager notified the committee that this grant was being administrated centrally by the Education Department and the money then allocated to the schools. The schools would then need to submit evidence that the money has been spent. In this case, it was noticed that not all necessary documents had been returned to the Education Department by Ysgol Syr Hugh Owen.

ESCROW Agreements

In response to a member’s question, the Senior Audit and Risk Manager notified the Committee that when software was bought, it was dependent upon the company to provide software to support it etc. Should the company become bankrupt and fail to support, an agreement could be reached with a third party for the software. This type of arrangement was called an ESCROW agreement.

Bryn Afon

In response to a member’s question, the Senior Audit and Risk Manager notified the Committee that Bryn Afon provided supported accommodation to young people with learning disabilities in Harlech. He noted that the report had received a C audit opinion and that there was a need to tighten the arrangements within the audited field.

Compliance with CoCo requirements

A member asked for an explanation of the CoCo term. In response, the Senior Audit and Risk Manager notified the Committee that the system was an information security standard where sensitive information about individuals was shared between the Council and other public bodies.

Learning Disabilities Expenditure Patterns

The Senior Audit and Risk Manager noted that this matter had been discussed by the Principal Scrutiny Committee on 1 July 2010.

Overspend at Ysgol Tanygrisiau

A member noted that no meetings of the Finance Sub-Committee or the Full Governing Body were held during the period between July 2007 and July 2008, and that was during a period in which the school's budget was in a very problematic situation. He was of the opinion that the need for these to convene relatively regularly needed to be drawn to the attention of the schools. In response, the Head of Finance Department notified the Committee that the Council had no powers to enforce school governing bodies to establish a Finance Sub-committee. He was aware that some governing bodies had established Finance Sub-committees which was good practice; however, other governing bodies were of the opinion that discussing school budgets was a matter for the full body. He noted that it was important that governing bodies met at least two or three times a year.

RESOLVED to write to the schools drawing their attention to the fact that they should convene governing body meetings each term and recommending that they also establish a Finance Sub-committee, and to send a copy of the letter to the Education Department.

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

4. INTERNAL AUDIT PLAN 2010/11

Submitted – the report of the Senior Audit and Risk Manager providing an update of the current situation on completion of the 2010/11 internal audit plan.

He provided details of the situation as at 5 September 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	42
Working Papers Created	13
Field work started	22
Field Work Ended	4
Manager Review	1
Draft Report Issued	6
Final Report Issued	15
Total	103
Cancelled	1

He notified the Committee that the 2010/11 performance target was to have 85% of the audits in the plan to be either closed or with the final report released by 31 March 2011. He provided details of the quarterly profile of the indicator. In order to reach the target for the end of the second quarter, he provided details of the final reports that were expected to be issued by 30 September 2010 in addition to the 15 final reports that had already been issued.

In relation to amending the plan, the officer notified the members of the details of these amendments.

RESOLVED to note the contents of the report as an update on progress against the 2010/11 audit plan.

5. STATEMENT OF ACCOUNTS 2009/10

i) Statement of the Accounts

The Head of Finance Department submitted the revised statutory financial statements for the committee's approval. He noted that the reports of the Wales Audit Office that followed noted the main changes to the accounts.

In relation to the fund of the late Mrs Florence Merthyr Guest Morgan, a member noted that the expenditure in 2009/10 was £3,800 compared to £8,400 in 2008/09 and she asked how it would be possible for members to receive full information of the fund and to have an opportunity to influence it appropriately. In light of the fact that the Charities Sub-committee had now been abolished, she suggested that the details of the fund should be submitted for the consideration of the Dwyfor Area Committee. In response, the Head of Finance Department noted that the matter had been raised at the previous meeting. He noted that this fund and the Welsh Church Act Fund used to be discussed by the Charities Committee in the past, which had now been abolished. By now, the Welsh Church Act Fund administrative arrangements had been transferred to the Economy and Community Department under the Cist Gwynedd banner, however the other trust funds had not been transferred in the same manner and following further enquiries no specific forum had been designated to discuss them for the time being. The matter had been discussed with the Head of Democracy and Legal Department and the Legal Services Manager asking them to contact the member, but it appeared that this had not taken place. He pledged that he would pursue the matter.

A member asked who was responsible for setting the North Wales Fire and Rescue Authority levy. In response, the Head of Finance Department notified the Committee that it was the Authority itself that was responsible for that and that members who represented the local authorities on the Fire Authority should ensure that there would not be an unreasonable increase in their funding by North Wales councils in 2011/12.

ii) "ISA 260" Formal Report

a) 2009/10 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 Local Manager – Wales Audit Office was present to submit the information.

It was reported that the Council was responsible for preparing financial statements to present the financial situation as it stood on 31 March 2010 along with the income and expenditure in the year which ended at that time.

The Wales Audit Office was responsible for undertaking an audit and for reporting whether it was of the opinion that the reports presented the financial position of the Council fairly at the end of every year. She notified the Committee that the Appointed Auditor intended to issue an unqualified audit opinion on the Council's accounts for 2009/10.

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. She noted that the Council had an obligation in relation to capping and after-care costs on the Cilgwyn waste disposal site and in the auditor's opinion the Council's provision for it on 31 March 2020 was insufficient to fund all the work required for the final capping in 2024/25. In order to comply with FRS 12, the Council should have increased the provision to the full amount in order to recognise the obligation properly in the 2009/10 financial statements. The Council had not done so, but had set aside resource in its earmarked capital reserves and capital budgets. In the auditor's opinion, there was a need to correct the misstatement and provide an additional £1.548m, although £1.241m of this could be funded from the earmarked capital reserves held in the balance sheet. As the Council was not prepared to correct this misstatement, the reason for doing so would need to be noted in a letter.

In response to the above, the Head of Finance Department notified the Committee that he generally thanked the auditors for their work and welcomed the contents of the Wales Audit Office report, especially the intention to issue an unqualified audit opinion on the accounts.

The Senior Finance Manager notified the Committee that the matter of financing the capping costs at Cilgwyn had been raised at this meeting the previous year, and since that time the Council, via the capital programme, had earmarked just over £2m for the interim capping work, while there was also a remuneration, a sum of £200,000 committed for 2011/12. In fifteen years' time (around 2026/27) there would be a need to undertake the final capping work, and it was anticipated that the cost would be approximately £985,000. He noted further that the Council had made an additional provision of £800,000 for the final capping work.

The Head of Finance Department added that this represented sufficient provision in the Council's opinion, and it was noted that the reasons had been explained in the draft letter which had already been submitted to the Committee.

b) 2009/10 Pension Fund Statements of Accounts

As above, the Local Manager - Wales Audit Office reported that the Council was responsible for providing financial statements to present the financial situation of the Gwynedd Pension Fund as it stood on 31 March 2010 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 pension fund at the end of a year. She notified the Committee that the Appointed Auditor intended to issue an unqualified audit opinion on the Gwynedd Pension Fund for 2009/10.

However, in forming this opinion on the financial statements, the adequacy of the disclosures made in the net asset statement and note concerning private equity carried at their fair value of £35m was considered. Because of the inherent uncertainty associated with the valuation of such investments, arising from the absence of a liquid market, the fair value of these investments may differ from their realisable values.

In response to the above, the Head of Finance Department notified the Committee that Gwynedd Pension Fund invested in a wide variety of assets in order to spread the risk and in order to further reduce the risk, the Pensions Committee had decided in 2007 to invest 5% of the fund in private equity. Due to the nature of this type of investment, the capital invested in private equity was locked up for many years before the fund would see its return.

Questions were raised by some of the members regarding the report and the officers responded to them including confirming that there was an inherent uncertainty linked to the value of investments in private equity and that it was good practice by many of the pension funds to invest a portion of the fund in such assets.

iii) Letters of Representation

Following discussions on the 2009/10 final accounts, the Head of Finance Department submitted draft letters addressed to the Appointed Auditor from the Audit Committee. The "letters of representation" included statements regarding the Council's financial statements and the Pension Fund's financial statements for 2009/10 and dealt with a variety of matters including assets, liabilities, investments and internal control. He explained that he had drafted the observations on behalf "of those charged with governance" at Gwynedd Council, namely, the Audit Committee.

The Head of Finance Department explained the "liabilities" section of the letter regarding the Council accounts which dealt with the Council's provision for capping the Cilgwyn site, which had been discussed previously, whilst the "investments" section of the letter regarding the Pension Fund accounts dealt with the value of the private equity.

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

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, approves the amended statutory financial statements, accepts the related reports by the Wales Audit Office, and authorises the Head of Finance Department and Chairman of the Committee to sign the letters of representation and to submit them to the Appointed Auditor of the Welsh Audit Officer.

6. TREASURY MANAGEMENT 2009/10

Submitted - the report of the Head of Finance Department on the Council's actual treasury management activity during 2009/10, compared with the

strategy that had been established for that financial year in February 2009. The report provided details of the Gwynedd Council treasury management portfolio position on 31 March 2009 and on 31 March 2010, interest rates, borrowing, debt rescheduling, investments and compliance with treasury limits.

RESOLVED to accept the report for information.

7. TREASURY MANAGEMENT 2010/11 – MID YEAR REVIEW

Submitted – the report of the Head of Finance Department on treasury management activity during the current financial year. It was noted that CIPFA's Code of Practice on Treasury Management included the need for the Council and the Pension Fund to monitor policies and treasury management activity.

The Head of Finance Department noted that on 29 March 2010 the Pensions Committee had requested that the Pension Fund's surplus cash balances still be allowed to be pooled with the Council's general cash flow from 1 April 2010 onwards.

He also noted that the Code of Practice recommended that members should be informed of Treasury Management activity at least twice a year. This report ensured that this authority as well as the Pension Fund was embracing best practice in accordance with the recommendations of the CIPFA Code of Practice.

He provided details of the contents of the report namely the economy and events, debt management, investment activity, compliance with prudential indicators and the outlook for interest rates. He referred in particular to changes in the credit ratings of some of the banks listed in Appendix A.

The Head of Finance Department proceeded to refer to Appendix B, and to explain the authorised limit and operational boundary for external debt. The officer notified the Committee that the authorised limit, which was £160m for 2010/11 had not been breached. However, the operational boundary of £135m had been breached for a period between 1 and 15 April 2010 when borrowing was £137.5m. This occurred due to the delay in the housing stock transfer from 29 March to 12 April 2010. The 2010/11 strategy had been based on the assumption that the transfer would take place on 29 March 2010 and that £14.1m of the PWLB loans would have been repaid by 31 March 2010. Should this have happened, the borrowing on 1 April would have been £123.4m and within the boundary. Unfortunately, as the transfer had been delayed, the boundary had been breached until the transfer took place and the £14.1m debt repaid on 15 April 2010. He noted that the relevant section of the CIPFA Prudential Code for Capital Finance in Local Authorities noted that the prudential indicator was an estimate for the operational boundary for external debt, and it was likely that it was not significant if the operational boundary was occasionally breached.

Members noted that borrowing had only breached the boundary for a few days, the incident was a one-off, he had explained it fully, it would not happen again and a request to change the value of the boundary had not been received.

RESOLVED to accept the report for information.

The meeting commenced at 10.30am and concluded at 11.50am.