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## AUDIT COMMITTEE 29-09-11

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

**Councillors:** E.T. Dogan, T.G. Ellis, Keith Greenly-Jones, Margaret Griffith,  
Aeron M. Jones, Charles W. Jones, R.L. Jones

**Also Present:** Dafydd Edwards (Head of Finance Department), Dewi Morgan (Senior Manager Audit and Risk), William E. Jones (Senior Finance Manager), Ffion M. Evans (Finance Manager - Resources and Corporate), Caroline Roberts (Investment Manager), Amanda Hughes (Local Manager – Wales Audit Office), Dafydd W. Williams (Chief Engineer Transportation and Street Care) and Gwyn Parry Williams (Committee Officer).

**Apologies:** Councillors Dylan Edwards, Huw Edwards, Selwyn Griffiths, John G. Jones, Ioan Thomas and Sian Gwenllian (Portfolio Leader - Finance)

### Thanks

The Chairman referred to the fact that Councillor Gwilym Williams had given up his seat on this committee as the Independent Group had given one seat to the Individual Member. The member was thanked for his service to this committee over the years.

### **1. DECLARATION OF PERSONAL INTEREST**

Councillor Keith Greenly-Jones enquired whether he was required to declare a personal interest in relation to the Wales Audit Office report on the 2010/11 Statement of Accounts for the Pension Fund as he was the Chair of the Council's Pensions Committee.

He was advised by the Head of Finance Department that it was not an interest which would prevent him from participating in the discussion as he represented the Council on the Pensions Committee.

### **2. MINUTES**

The Chairman signed the minutes of the meeting of this committee held on 12 July 2011, as a true record.

### **3. STATEMENT OF ACCOUNTS 2010/11**

#### **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.

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

##### **a) 2010/11 Gwynedd Council Statements of Accounts**

In accordance with the "ISA 260" Annual Audit 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 providing financial statements to present the financial situation as it stood on 31 March 2011 along with the income and expenditure in the year which ended on 31 March 2011.

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 accurately and 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 2010/11.

The Local Manager – Wales Audit Office referred to two uncorrected misstatements in the WAO report, namely -

- a) That the Council had not recognised a liability for pension contributions on the back pay element of its equal pay settlement and, therefore, in the opinion of WAO the Council should recognise a liability of £528,000 in the 2010/11 accounts.
- b) That the Council had not recognised a full liability in relation to capping and after care at the Cilgwyn waste disposal site. In the auditor's opinion, the Council should provide an additional £185,000 on top of the £3,915,000 already provided.

The Manager referred to two concerns regarding the qualitative aspects of the accounting practices and the process of submitting financial reports under the new International Financial Reporting Standards (IFRS) and noted possible improvements.

The Manager also noted that the Code of Practice required the Council to disclose details of related party transactions within its accounts. In order to gather the relevant information, the Council had written to its members seeking details of related party interests by 21 April 2011. At the time of the audit in September 2011, 13 members of the Council had still not responded.

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 that the 2010/11 accounts were accurate and fair. He noted that he had responded reasonably to two of the aforementioned matters, namely the element of back pay and the Cilgwyn waste disposal site in his letter to the Appointed Auditor and he drew the committee's attention to them.

In relation to the two concerns regarding the qualitative aspects of the accounting practices and the process of submitting financial reports noted in the Appointed Auditor's report, the Senior Finance Manager noted that the Council had depended on national publications and statements by CIPFA which had interpreted various matters. He noted that the financial statements for 2010/11 were the first ones to be prepared under the International Financial Reporting Standards (IFRS) and he thanked the team which was responsible for preparing the lengthy accounts within a stringent timetable. In

relation to the “personal accounts” the officer noted that there had been substantial progress with this work.

The Head of Finance Department thanked Amanda Hughes for her co-operation in the audit and he also thanked Dave Jones, Wales Audit Office for his guidance over the years and wished him a speedy recovery. It was agreed to write to him on behalf of the committee.

### **b) 2010/11 Pension Fund Statements of Accounts**

As above, the Local Manager – Wales Audit Office reported that the Council was responsible for preparing financial statements to present the financial position of the Gwynedd Pension Fund as at 31 March 2011.

The Wales Audit Office was responsible for undertaking an audit and for reporting whether it was of the opinion that the reports presented accurately and 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 2010/11.

The Manager noted that there had not been any misstatements in the financial statements. However, she referred to two concerns regarding the qualitative aspects of the accounting practices and the process of submitting financial reports and noted possible improvements. She also noted that each member of the Pensions Committee had not responded with declarations of interest in order to ensure the disclosure of related party transactions. Additionally, she noted one relevant weakness in the internal controls.

In response to the above, the Head of Finance Department notified the Committee that he welcomed the contents of the Wales Audit Office report, especially the intention to issue an unqualified audit opinion that the pension fund accounts for 2010/11 were accurate and fair. He noted that he had responded to the aforementioned matters in his letter to the Appointed Auditor and drew the committee’s attention to them.

Several questions were raised by some of the members in relation to the accounts and the officers responded to them.

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

Following discussions on the 2010/11 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 2010/11. He explained that he had drafted the comments on behalf of “those charged with governance” in Gwynedd Council, namely the Audit Committee.

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 “those 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 Office.**

#### **4. TREASURY MANAGEMENT 2010/11**

Submitted - the report of the Head of Finance Department on the Council's actual treasury management activity during 2010/11, compared with the strategy that had been established for that financial year in February 2010. The report provided details of the economic background, the borrowing requirements and debt management, investment activity and compliance with prudential indicators.

The Head of Department noted that the Council had not directly invested in any foreign bank during 2010/11 or to date during 2011/12. In 2010/11 two banks which had been registered in the UK but were subsidiaries of foreign banks had been used, namely Santander (Spain) and Clydesdale Bank (Australia); however, by now the Council did not use Clydesdale Bank.

In relation to a question by a member regarding having long term investment to support people within Gwynedd to buy houses, the Head of Finance Department noted that over £1m had been earmarked for first-time buyers to obtain mortgages. He explained that research continued in order to secure an effective scheme which would assist local people to obtain mortgages with one of the banks or building societies.

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

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

##### **a) A report to be considered at the request of the Chairman and Vice-chairman – Pont Briwet Upgrade Works**

The Senior Manager Audit and Risk reported that the Committee's Chairman and Vice-chairman had requested that officers from the Regulatory Department should attend the meeting in order to respond to any questions regarding the risks involved with the Pont Briwet upgrade works scheme and any other matters that may arise from the "Pont Briwet Upgrade Works" audit report.

This followed a consideration of the internal audit reports released during the period between 1 June and 31 August 2011. The officer added that the purpose of the audit was to ensure that the Council had robust and adequate arrangements for undertaking upgrade work on the bridge.

The Chief Engineer Transportation and Street Care provided an outline of the Council's role regarding this scheme. He noted that approximately £90,000 of Council funding had been invested and grants had been awarded in order to undertake initial feasibility work in order to seek funding from other sectors. Commitments for funding towards the scheme had been made by Network Rail (£6m), TraCC (approximately £4m) and European funding (approximately £10m). Therefore, the current total of these commitments was approximately £20m. A substantial amount of work would be undertaken to ensure that the scheme could be realised for that amount. An obvious risk would be if the scheme could not be realised for this amount of money, who would be responsible for the additional funding? The Council did not intend to provide

additional funding towards the scheme and, therefore, it should be ensured that the scheme would be managed within the funding and also that the grant funding was spent appropriately. He noted that £1.2m had been spent to date on the initial work of developing the scheme and that part of the TraCC funding was paying for half of this amount with Network Rail paying the other half. In relation to the European funding, their guidelines and requirements were much more stringent in terms of satisfying the standards etc. and there was a substantial risk involved with that as it would be possible for them to withdraw the money from the Council. In terms of Network Rail funding, they were keen to take a major part of the management of this scheme but were not always willing to accept the risk. In terms of the timing of the scheme, he noted two main risks, namely the compulsory purchase of land and rights in relation to planning/ environment/ demolition of the bridge.

The Senior Manager Audit and Risk noted that should the scheme not go ahead there would not be a risk of over expenditure. However, as one of the Council's priorities was to build a new bridge as it was identified as an important strategic aim for the area, failing to have a new bridge would be a significant risk in itself.

A member enquired whether the Audit Unit intended to submit a further report on this audit during the year. In response, the Senior Manager Audit and Risk notified the committee that the matter would be in the Audit Unit's work programme for the coming year.

**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 2011**

Submitted – the report of the Senior Manager Audit and Risk outlining the Internal Audit Section's work in the period between 1 June and 31 August 2011. In relation to the information on the work completed during the period, the officer referred to -

- 17 reports on audits in the operational plan with the relevant opinion category shown.
- two other reports (memoranda etc.)
- seven grant reviews
- three follow-up audits
- one responsive audit

Details of further work that Internal Audit had in the pipeline were reported upon. This included ten draft reports which had been released and 22 audits which were ongoing.

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

#### **Data Protection Act - CCTV**

A member noted that it was necessary for the contracts awarded to bus companies to insist that CCTV cameras were installed on school buses in order to ensure that children behaved appropriately. In response, the Senior

Manager Audit and Risk informed the committee that, when installing CCTV in buildings or on school buses establishments were required to be aware of the legislation which needed to be complied with when installing such a system.

A member referred to the fact that many taxis and mini buses took children to schools and that any transport agreement throughout Gwynedd involving this should include installing CCTV systems within these vehicles. In response, the Senior Manager Audit and Risk notified the committee that it was possible to ask the Education Department to address the matter. Members agreed with this suggestion.

### **Council Tax – Collections and Refunds**

In response to an enquiry by a member, the Head of Finance Department noted that the procedure for closing the Cash Office at the Town Hall in Bangor had already been confirmed and implemented in relation to the Council's savings scheme.

**RESOLVED to send a letter to the Finance Department congratulating them on receiving an “A” opinion category.**

### **Sports Development**

**RESOLVED to send a letter to the Provider and Leisure Department congratulating them on receiving an “A” opinion category.**

### **Members' Information Technology Arrangements**

A member referred to the first bullet point in the audit opinion which noted “From the perspective of information security and in order to reduce expenditure, the Council should proceed to establish arrangements so that every document (confidential and ordinary) is sent to Members in an electronic format in the same way as agendae and minutes currently are, by informing members (or prospective candidates) that this is the only format in which they may have access to the documents).”(sic) He was of the opinion that this procedure was unfair and especially so for prospective candidates. In response, the Senior Manager Audit and Risk notified the committee that he would be willing to draw the attention of the Democracy and Legal Department to the committee members' opinion. He noted that he had been given to understand when undertaking the audit that the intention of the Democracy and Legal Department was to contact prospective candidates prior to the election in May 2012 to introduce the aspects of information technology that members would be expected to use and accepted and supported the principle of this intention. It was agreed to draw the attention of the Democracy and Legal Department and the Members' Working Group to the matter.

Another member enquired why it was necessary to change the password on the computer on a monthly basis. In response, the Head of Finance Department notified the committee that the “CoCo” computer security standards had set out conditions in relation to access to information. He noted that it was necessary to change the password every three months.

## **Winter Maintenance**

A member noted that this audit had received an opinion category of “B”, however, bearing in mind the hard winter which had been experienced last year he was of the opinion that there was room to congratulate the Highways and Municipal Department for being able to maintain the service under such circumstances.

**RESOLVED to write to the Highways and Municipal Department congratulating them on their hard work in trying to cope with the situation last winter under such difficult circumstances.**

## **Reconciliation of Parking and Fine Income**

The Senior Manager Audit and Risk noted that the committee had already decided that the Head of Regulatory Department should attend the next meeting to discuss two other reports and, he was of the opinion that he should be invited for this matter also. This audit received an opinion category of “CH” as arrangements had not been in place in the Parking Unit to reconcile the income collected from the pay and display parking machines or to monitor and check that the machines had been emptied in accordance with the contract. He referred to a case where some of these machines had been stolen. He noted that the company which was responsible for emptying the machines had not emptied some of them for some months. Additionally, in order to manage the contract, it was essential that the company submitted reports in order to reconcile the income; however, this had not been happening.

**RESOLVED to agree to invite the Head of Regulatory Department to the Audit Committee on 17 November 2011 to explain the situation.**

**RESOLVED to accept the reports on the Internal Audit Section’s work for the period between 1 June and 31 August 2011 and to support the recommendations already submitted to the managers of the relevant services for implementation.**

## **6. INTERNAL AUDIT PLAN 2011/12**

Submitted – the report of the Senior Manager Audit and Risk providing an update of the current situation in terms of completing the 2011/12 internal audit plan.

He provided details of the situation as at 2 September 2011 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 -

<b>Audit Status</b>	<b>Number</b>
Planned	34
Working Papers Created	3
Mid-point review	1
Field work started	21
Field Work Completed	1
Awaiting Review	4
Draft Report	11

Final Report	30
Closed	1
<b>Total</b>	<b>106</b>

He notified the Committee that the 2011/12 performance target was to have 95% of the audits in the amendments plan to be either closed or with the final report released by 31 March 2012. He provided details of the quarterly profile of the indicator. He noted that Internal Audit's actual achievement by the end of August 2011 was 29.25% and out of the 106 individual audits in the 2011/12 revised plan, 30 had been released finally by the end of the quarter and one other had been closed. He confirmed that the target of 40% had been achieved by the date of the committee and, therefore, was in line with the profile.

In relation to amending the plan, the officer noted that there were no amendments to the plan to report on in this committee.

**RESOLVED to note the contents of the report as an update on progress against the 2011/12 audit plan.**

The meeting commenced at 10.30am and concluded at 12.20pm