

---

## AUDIT COMMITTEE 12-07-11

---

**Present:** Councillor John P. Roberts (Chairman);

**Councillors:** E.T. Dogan, Huw Edwards, Tom Ellis, Keith Greenly-Jones, Margaret Griffith, Selwyn Griffiths, Aeron M. Jones, Charles W. Jones, R.L. Jones, Ioan Thomas, Gwilym O. Williams and Sian Gwenllian (Finance Portfolio Leader)

**Also Present:** Dafydd Edwards (Head of Finance), Dewi Morgan (Senior Manager Audit and Risk), William E. Jones (Senior Finance Manager), Ffion M. Evans (Resources and Corporate Finance Manager), Helen Williams (Principal Capital and Management Accountant), Alan Hughes (Principal Leisure Manager), Amanda Hughes (Local Manager – Wales Audit Office), Gwyn Parry Williams (Committee Clerk).

**Apologies:** Councillors John G. Jones, Llinos Merks, Dewi Owen, Gethin Williams

### 1. CHAIRMAN

**RESOLVED to re-elect Councillor John P. Roberts as Chairman of the Committee for 2011/12.**

### 2. VICE-CHAIRMAN

**RESOLVED to re-elect Councillor Gethin G. Williams as Vice-chairman of the Committee for 2011/12.**

### 3. DECLARATION OF PERSONAL INTEREST

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

Councillors Margaret Griffith and Ioan Thomas in the item regarding Cist Gwynedd as they were members of the Cist Gwynedd Panel.

Councillor Margaret Griffith in the item regarding Language Units as she represented the Council on the governing bodies of Ysgol Llanybi and Ysgol Eifionydd, Porthmadog, two schools which had language units on their site.

Councillor Selwyn Griffiths in the item regarding Language Units as he was a member of the governing body of Ysgol Eifionydd, Porthmadog which had a language unit on its site.

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 10 March 2011, as a true record.

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

Submitted - the report of the Head of Finance. Amongst the requirements of the Local Government (Wales) Measure 2011, was the need for the Council to change its arrangements from "alternative arrangements," namely Council Board, to "executive arrangements," namely Cabinet, and it was proposed that the new arrangements would come into effect following the election in May 2012. The measure also changed the Audit Committee's emphasis and form. In terms of form, the Measure insisted that at least one lay member would be on the committee and in terms of emphasis the committee would scrutinise financial issues previously submitted to the Principal Scrutiny Committee. The issue had been discussed with the Chief Executive, Council Leader, Finance Portfolio Leader, Monitoring Officer and the Chair of the Audit Committee and the intention was, with the agreement of this committee, to pilot the procedure, by submitting financial reports to the committee during the year, namely quarterly budget reports and investments reports. It was also noted that a procedure had been in place to submit reports on funds for the attention of a Principal Scrutiny Committee working group, but as the Audit Committee would have the role of scrutinising financial matters from now on, it was proposed to establish a working group of this committee during the winter in order to scrutinise them. The members welcomed this approach for the following year.

Submitted – the statutory Statement of Accounts for the 2010/11 financial year providing details of the Council's financial activities during the year which ended on 31 March 2011. The Head of Finance noted that this Council was among the first three Councils in Wales to publish the statement on its website on 1 July 2011 and this was very reassuring.

The Head of Finance 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 29 September 2011. 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. The Statement of Accounts for 2010/11 had been drawn up on the grounds of many new requirements namely International Financial Reporting Standards (IFRS), which steers the Code of Practice for Local Authority Accounting. The Code of Practice for Local Authority Accounting included requirements to convert 2009/10 accounts which had been prepared in accordance with the old Statements of Recommended Practice, to the code based on IFRS which had come into operation since 1 April 2010. As the regulations required statements in a standard format, comparisons with other bodies' accounts were facilitated, but the document had now become very technical.

The Head of Finance noted that a report regarding the accounts had been submitted to the Council Board on 14 June 2011. 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 noted that the Audit Committee had been “those responsible for governance” on behalf of the Council, and before 2009/10 the committee had approved the draft statement of accounts subject to audit. However, the 2010 adaptations to the Accounts and Audit Regulations (Wales) 2005 had given the responsibility for approving and certifying the draft accounts prior to 30 June 2011 to the Statutory Finance Officer (the Head of Finance at Gwynedd Council). By now, elected members did not need to approve a draft version of the statement, but it would be submitted to this committee for information and this was considered to be good practice.

The Head of Finance further noted that the Statement of Accounts, 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. Several questions were raised by the members in relation to the accounts and the officers responded to them.

Members were reminded that the Pension Fund accounts would be submitted to all the fund employers in an Annual Meeting on 27 July 2011.

In relation to the fund of the late Mrs Florence Merthyr Guest Morgan, a member referred to the fact that the situation had been very disappointing and noted that the money in hand was increasing and that the money should be used for the benefit of the residents of Llŷn for specific purposes. He was of the opinion that specific steps should be taken to inform the public of the existence of this fund in order to encourage people to present applications for money. He noted the need to look at the fund’s structure. In response, the Head of Finance Department notified that the member had raised the issue the previous year and that he had contacted the Head of Democracy and Legal and had asked her to respond to the member. The Head of Finance pledged that he would discuss the issue further with the Head of Democracy and Legal Department.

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

#### **RESOLVED**

**a) To accept and note the Statement of the Council’s Accounts (subject to audit) 2009/10.**

**b) To ask the relevant officers to submit a report to the Dwyfor Area Committee providing details of the terms/structure of the Fund of the Late Mrs Florence Merthyr Guest Morgan.**

#### **6. GWYNEDD COUNCIL’S ANNUAL GOVERNANCE STATEMENT 2010/11**

Submitted – the report of the Senior Manager Audit and Risk on the Council’s Annual Governance Statement for 2010/11 for the committee’s approval.

He explained that the Accounts and Audit Regulations (Wales) 2005 required Welsh local authorities to produce an annual Statement of Internal Control (SIC) pursuant to regulation 4(2)(a). He noted that the Accounts and Audit Regulations (Wales) stated that the statement of accounts had to be

produced in accordance with good practice, namely the Statement of Recommended Practice (SORP) published annually by CIPFA which sets out appropriate arrangements for producing financial statements. The SORP for 2011 noted that Welsh local authorities now had to publish an Annual Governance Statement. When preparing the statement, the Council must ensure that it incorporates the statutory requirements as outlined in the regulations. In order to ensure that this was happening, the guidelines published by professional bodies such as CIPFA and SOLACE were followed to ensure the statement included all the elements that would have been included in the Statement on Internal Control in the past. Once the Annual Governance Statement had been approved by the Audit Committee, it would then be signed by the Chief Executive and the Council Leader.

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.

By now, the officer noted that the Ombudsman had published his annual report and out of the 39 cases that were closed during 2010/11, only four of the complaints were confirmed by him.

**RESOLVED to approve the Annual Governance Statement, incorporating Gwynedd Council's Statement of Internal Control for the 2010/10 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 2011**

Submitted – the report of the Senior Manager Audit and Risk outlining the work of the Internal Audit Section to the period during 1 February to 31 May 2011. In submitting the information on the work completed during the period, the officer referred to -

- 24 reports on audits in the operational plan with the relevant opinion category shown
- Three other reports (memoranda etc.)
- Ten follow-up audits
- Five responsive audits

Details of further work that the Internal Audit Section had in the pipeline were reported upon. This included 4 draft reports which had been released and 35 audits which were ongoing.

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

### **Payments for restoring/repairing vehicles**

A member asked for confirmation if the contract to fetch the vehicles had been tendered. In response, the Senior Manager Audit and Risk notified that these payments were not substantial and that the overall expenditure did not reach the threshold for tendering for the work. However, if it was felt that a large contract for a specific period was needed, he would recommend this to the Fleet Unit.

### **Language Units**

A member referred to a clause in the report which read “audit tests showed that the language units funded the expenditure of pupils’ goods and transport to the units from this central code.” She noted that she had received information from the Head of Ysgol Llanybi stating that the school was still funding a proportion of the use of the language unit in the school. In response, the Senior Manager Audit and Risk informed the Committee that the goods used only by the language unit was paid for by the unit and had a separate code. He noted that the work carried out by the Internal Audit Section was based on the risk to the Council and the risk did not justify the use of the Internal Audit Section’s scarce resources to investigate the internal allocation of minor expenditure on some items shared between the Council’s internal establishments, such as soap and toilet paper. Significant risks were dealt with generally and the main elements of expenditure were addressed. The situation had already been explained to the Head of the school that was questioned during the audit.

### **Releasing the Potential of Gwynedd Special Need Schools Grant**

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

### **Ysgol Dyffryn Ogwen**

**RESOLVED to send a letter to the Head of Ysgol Dyffryn Ogwen congratulating him on receiving an “A” opinion category.**

### **Ysgol Uwchradd Tywyn**

In response to a question from a member regarding the audit, the Senior Manager Audit and Risk notified the Committee that the Head and Administrative Officer had been appointed to their current posts in September 2009 and that they had not received the necessary information at that time but it was anticipated that the situation would improve from then on.

### **Mobile Phones Management**

The Senior Manager Audit and Risk notified the Committee that this audit had received an opinion category of “CH” and drew attention to the recommendation in the report to try to improve the situation. This matter had been raised because nobody was willing to take responsibility for management. It was reported that the control over mobile phone management had moved from the Information Technology Unit to the Support Unit within the Human Resources Department but the discussions regarding taking responsibility for control was continuing. The audit’s opinion was that a

comprehensive and inclusive review of the arrangements should be held in relation to mobile phones and that the outcome of the review and the decision on the way forward should be reported to this committee on 17 November 2011 if possible.

### **Check Performance Indicators**

A member noted that the Principal Scrutiny Committee had asked for comments also to be given under the "green" indicators to see whether or not they are "green". The Senior Manager Audit and Risk acknowledged that this was an important step forward.

### **Enablement Project Management Arrangements**

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

### **Annual Report of the Statutory Director of Social Services**

**RESOLVED to send a letter to the Head of Housing and Social Services Department congratulating her on receiving an "A" opinion category.**

### **Public Transport Unit**

The Senior Manager Audit and Risk noted that this audit had received an opinion category of "C" and that a few changes were currently ongoing within the Public Transport Unit, and he suggested the committee should receive an update of the situation from the unit during the year.

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

### **Hiring External Meeting Rooms**

A member noted that a number of recent Council Committees had been held in rooms outside the Council although rooms were available to use within the Council Offices. He asked for information on the cost of hiring these rooms together with the cost of providing a buffet. In response, the Head of Finance explained that the main findings of the audit were that the expenditure of holding meetings outside the Council had reduced during the last three years. Managers and Officers were reminded to hold meetings internally if possible.

### **Menai Centre Bangor Car Park Agreement**

In response to an observation made by a member regarding the cost of the failure of Cwmni Cathco to the Council, the Head of Finance noted that there had been a rent loss of approximately £70,000 on the land, that the situation was unsatisfactory, and that firm steps needed to be taken to deal with the issue. A member suggested that relevant officers from the Regulatory Department should be invited to come before the committee during the following months to explain the developments.

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

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

#### **8. LEISURE CENTRES INTERNAL INSPECTIONS REPORT**

Submitted – the report of the Head of Provider and Leisure Department by the Senior Leisure Officer on the departments' proposals to respond to internal inspections in relation to the Council's Leisure Centres in order to ensure an acceptable standard, namely opinion category "B" or better was received which would comply with the Council's regulations and procedures.

He noted as part of the Internal Audit Department's 2010 audit programme, five of the leisure centres had been audited and three of them fell into opinion category "C" in terms of compliance with either the Council's financial regulations operational procedures.

He provided details of the main recommendations in the reports which received an opinion category of "C" and the recommendations for action in order to mitigate risks. He asked the members to accept the report and to approve the recommended actions.

A member was of the opinion that Centre Managers should set the standards and ensure that the staff also attains those standards. In response, the officer informed that the integrated management system had been undertaken and that the managers had received an introduction and training on the contents of the booklet but not everybody chose to follow it up. He noted that four officers from the Provider and Leisure Department were visiting the centres to undertake monthly inspections.

A member noted that the performance was disappointing and that good practice was important and should be carried out in every leisure centre. In response, the officer agreed and he informed the committee that the booklet summarised every procedure that the staff were required to complete.

A member asked whether a notice was given to staff in the centres who do not operate. In response, the officer informed the committee that he had visited every centre manager the previous year and had asked for their opinion on the service including the support they received from their line manager. The general opinion was that they needed more support from their manager (who managed the entire county's centres). Consequently, county responsibilities had been shared between two officers which meant better support (this had been operational from September 2010 which was after the date of most audit reports.) As the support would be in place through the monitoring officers and also through the support of the Facilities Managers, it would be appropriate to commence disciplinary steps against managers should they not ensure that their centres comply with the Council's regulations and procedures.

**RESOLVED to accept the report, to approve the recommended actions and submit an update to this committee in six months time.**

## 9. THE ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT 2010/11

Submitted – the annual report of the Senior Manager Audit and Risk for 2010/11. He explained that he was duty bound as the Council's Head of Internal Audit to provide assurance to the Authority on the Authority's whole system of internal control. He added that he could not offer complete assurance when stating 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 2010/11 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 had been 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 2010/11 had included 106 audit tasks. Of these, 91 assignments had been completed, representing 85.85% of the plan. A decision had been made during 2010/11 that appropriate steps needed to be taken once and for all to end the practice where the audit work for one year would not be completed until some months into the following year. In accordance with the SAC recommendation, the issue had been reviewed, when it had been agreed to change this indicator for 2010/11 to **“The percentage of inspections within the Audit Plan that had either been closed or had a final report that had been released”**. He noted that the target for 2010/11 was 85% and that it was to increase to 95% in 2011/12.

The officer drew attention to the way internal audit reports were categorised. Of the the reports relevant to the 2010/11 plan, 84% had received an “A” or “B” opinion which was a slightly lower than the corresponding figure of 87% in 2009/10.

The officer noted that a final memorandum had been released for 18 follow-up audits during the period from 1 April 2009 to 31 March 2011 and each one of these audits had received an opinion of “acceptable” or “excellent” apart from one audit that had received an opinion of “unsatisfactory” and another two had not been given opinion categories due to changes in arrangements. 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 during 2010/2011. He noted that a further increase had been seen in the total number of days spent on productive work for Gwynedd Council from 1,770 days between 1 April 2009 and 31 March 2010 to 1,897 days for the same period in 2010/11. There had been a reduction in the number of days that had to be used to complete the work before the end of the financial year from 360 days in 2009/10 to 131 days in 2010/11. This figure was expected to reduce further in 2011/12 because of specific improvement measures that had been put in place.

The results of the 2010/11 performance indicators were presented, noting that only one indicator had not reached the target.

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 2010.

The officer noted that the department had been successful in winning an internal audit agreement with Tai Eryri Housing Association for the year until 30 June 2012. It should not have a visual affect on the Internal Audit's ability to undertake the Council's work. It was envisaged that approximately 50 audit days would be the provision for Tai Eryri Housing Association.

#### **RESOLVED**

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

**b) Congratulate the Council's Internal Audit Section on winning an agreement to audit Tai Eryri Housing Association.**

#### **10. 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.

It was noted again this year that the Head of Internal Audit Service had some operational responsibilities that were not consistent in a technical sense with the independence standard, but following a discussion with the Head of Finance Department the External Auditor had understood that the Council would not change its structure.

In an attempt to improve the service performance, the External Auditor from the Wales Audit Office recommended that a formal protocol should be developed between Internal Audit and External Audit.

**RESOLVED to accept the report.**

**11. INTERNAL AUDIT PLAN 2011/12**

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

He provided details of the situation as at 1 July 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	56
Working Papers Created	5
Field work started	23
Field Work Ended	3
Draft Report	2
Final Report	16
<b>Total</b>	<b>105</b>

He notified 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 noted that Internal Audit's actual achievement by the end of the first quarter was 15.28% and out of the 105 individual audits, 16 had been released finally by the end of the quarter. Performance was therefore lower than the profile set. However, the field work had begun for 42% of the audits, which gained confidence that the targets would be reached by the end of the year and there was a strong possibility that the increase would be in accordance with the profile by the end of the second quarter.

In relation to amending the plan, the officer notified the committee that there were not any amendments to the plan to report on in this meeting.

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

**12 . 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 appropriate 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 (Wales) 2004.

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 £171, 516 plus VAT for 2010/11 and it would be raised in equal instalments between November 2010 and October 2011. She noted that this fee was lower than last year's fee.

**RESOLVED to accept the report.**

**13. FINANCIAL AUDIT STRATEGY 2010/11 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. She noted that the Appointed Auditor was required to consider and certify the accounts of the Pension Fund, satisfying himself that the accounts –

a) 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.

b) Complied with all the relevant legislation requirements.

c) Had been prepared in accordance with appropriate accounting practice.

In addition, the Appointed Auditor was required to –

i) Satisfy himself that the Council had made appropriate arrangements for securing economy, efficiency and effectiveness in terms of its use of resources.

ii) Certify that the audit had been completed in accordance with the Public Audit Act (Wales) 2004.

In order to publish 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.

She drew attention to the financial audit fee of £25,095 plus VAT for 2010/11 and it would be raised in equal instalments between November 2010 and October 2011.

**RESOLVED to accept the report.**

The meeting commenced at 10.30am and concluded at 12.45pm