
AUDIT COMMITTEE 17-11-11

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

Councillors: E.T. Dogan, Huw Edwards, T.G. Ellis, Keith Greenly-Jones, Margaret Griffith, Selwyn Griffiths, Charles W. Jones, Llinos Merks, Dewi Owen and Sian Gwenllian (Finance Portfolio Leader)

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

Apologies: Councillors Dylan Edwards, R.L. Jones and Ioan Thomas

1. DECLARATION OF PERSONAL INTEREST

Councillor T.G. Ellis declared a personal interest in the item related to the Welsh Church Act Fund, as he was Chairman of the Llawrplwy a Phenstryd Eisteddfod Committee, Trawsfynydd which received funding from the fund.

The member was of the opinion that it was not a prejudicial interest and he participated fully in the discussion on the item.

The Senior Audit and Risk Manager declared a personal interest in the following items -

- a) Primary Schools – Budgetary Control as his wife, at the time of the audit, was a member of the governing body of one of the schools referred to in the report and as one of his children was a pupil at the same school.
- b) Benefits Investigation Unit – as he had managerial responsibility for the unit, and for the case in question, he was the one being audited rather than the auditor.

The officer was of the opinion they were not prejudicial interests and he participated fully in the discussion on the items.

2. MINUTES

The Chairman signed the minutes of this committee held on 29 September 2011 noting Councillor Llinos Merks' apology from the meeting and also the following correction -

Minute 3 – Accounts Statement 2010/11

ii) "ISA 260" Formal Report

a) 2010/11 Gwynedd Council Statements of Accounts

To correct clause (b) in the fourth paragraph on page 2 to read "In the Auditor's opinion the Council should have provided for the initial cost estimate by building provision (rather than making provision by allocating capital

resources between 2006/07 and 2011/12, which was in addition to the actual provision which had already been made for the estimated cost of the final capping)”

3. THE REGULATORY DEPARTMENT'S RESPONSE TO INTERNAL AUDIT REPORTS

The committee were reminded by the Senior Audit and Risk Manager that this committee, following consideration in previous meetings of the internal audit reports related to -

- a) Reconciliation of Parking and Fine Income
- b) Menai Centre Bangor Car Park Agreement
- c) Integrated Transport Unit

had requested that officers from the Regulatory Department should attend the meeting in order to respond to any questions regarding the progress achieved in responding to the recommendations of the reports along with any other issues arising from the audit reports.

He noted that the audit report on “Reconciliation of Parking and Fine Income” which had been submitted to the previous committee had received a “CH” opinion category and that the report on “Integrated Transport Unit” which had been submitted to the committee held in July 2011 had received a “C” opinion category. With regard to the report on the “Menai Centre Bangor Car Park Agreement”, the main issues involved the car park lease.

The Head of Regulatory Department reported on his response to each recommendation in the internal audit reports noting the general progress towards undertaking some of the changes and improving the arrangements within the Department in the three fields. He noted that there was generally a good working relationship between his Department and the Internal Audit Unit and audits were looked at as a way of discovering the actual situation in relation to some service provisions and as an opportunity to learn and improve the service.

In relation to a question by a member on the Menai Centre Bangor Car Park Agreement, the Head of Regulatory Department notified the committee that this car park had caused problems for the Department because the company had been declared bankrupt and that there was currently an £80,000 deficit. The Council would need to consider how to deal with the situation. Some work had already been undertaken to seek to resolve the situation.

The Chief Engineer - Transportation and Street Care notified the committee that the administrators responsible for Cathco's debt had been contacted in September 2010 and that they would not be in a situation to hold discussions with the Council until the value of the assets had been looked at. However, discussions had now been held with the administrators and it had been given to understand that the multi-storey car park was being leased to a private company and the payment of approximately £80,000 a year would be paid to the Council from this rent, as compensation for the income of the car park that was on the site before the multi-storey car park was built. He noted that the business plan for the multi-storey car park had been put to one side and that it had not been incorporated with the Menai Centre business plan and that there was movement to consider the multi-storey car park separately. A further meeting was sought with the company to discuss options for the Council and how £80,000 a year could be found or what risks was the Council

prepared to take that might be of greater benefit for the Council. The Department was confident that the £80,000 amount was available for this year, although the Council had not yet confirmed this.

In response to a member's question regarding the action plan and implementing the recommendations in accordance with the targets, the Chief Engineer – Transportation and Street Care notified the committee that there were a number of options under consideration e.g. collecting money in the Snowdonia Green Key Area; a partnership related to subsidising the Sherpa buses. During the following weeks, it was intended to go out to a totally different tender for this. He provided details of the five options that had been included in the tender. It would then be required to consider which options would be best for the Council and the Snowdonia Green Key Partnership in terms of risk and obtaining value for money.

In relation to the Integrated Transport Unit and the recommendation that "agreements are not subject to the Transportation Act and therefore the de-minimis clause is not relevant to these agreements. It is likely that a number of existing education agreements have been set contrary to procurement regulations", a member asked whether or not there were any legal implications for members and staff who were associated with this. In response, the Head of Regulatory Department informed the committee that the internal audit report confirmed many weaknesses that existed in the previous working arrangements which had been in place for quite a while and needed to be addressed. He also referred to part of the work that was being done regionally at quite a substantial cost and which also looked at this type of activity within the six authorities. He was of the opinion that the Public Transport field was a field that deserved all the attention given to it at the moment and was a field that needed to improve. In terms of the risk, should there be no response to this recommendation, it was acknowledged that this would pose a risk for the Council. It was attempted to identify every contract that was not being operated in the most robust way.

The Chief Engineer – Transportation and Street Care noted that this was quite a complex field in terms of the contracts and an attempt was being made to simplify the situation in order to obtain best value for money.

RESOLVED to accept the report on the progress and response of the Regulatory Department to the recommendations of the internal audits.

4. OUTPUT OF THE INTERNAL AUDIT SECTION

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

- 18 reports on audits in the operational plan with the relevant opinion category shown.
- one other report (memoranda etc.)
- two grant reviews
- two follow-up audits

Details of further work that Internal Audit had in the pipeline were reported upon. This included five draft reports which had been released and 27 audits which were ongoing.

The Officer referred to the Integrated Children's System (Social Services Department) which had now been included in the audit plan for quite some time. It was acknowledged as a risk field and the statutory requirements were to introduce specific guidelines and to have arrangements in place to protect vulnerable children. There had been a requirement for approximately ten years to develop such a system following a case in England, as it had been decided at that time that there was a need to have a more formal framework in place to protect vulnerable children. The officer noted that a number of documents had been issued by the Westminster Government and the Welsh Government which defined aspects of the system, namely -

- a) ICS 1a to be implemented by 31 December 2006.
- b) ICS 1b to be implemented by 31 December 2008.
- c) ICS 1c to be implemented by 30 April 2010.

He noted that statutory guideline 1c had now been withdrawn in England; however the statutory requirements had not yet been slackened in Wales although local authorities had been awaiting similar direction from the Welsh Government since October 2010.

The system had been included in the Council's Three Year Plan which ended in April 2011 but it had not been included in the plan for 2011 - 2014.

He noted that this was an essential statutory field. He suggested that it would be advantageous to invite an officer from the Social Services Department to the next committee meeting to explain the situation.

A member was of the opinion that the matter should receive urgent attention before the next meeting of this committee and he suggested that the Children and Young People Committee should consider the matter first. In response, the Senior Audit and Risk Manager said that the matter had already been discussed by the Children and Young People Committee on 30 November 2010 and as this was considered to be a matter that posed a risk to the authority, that it was now a matter for the Audit Committee.

RESOLVED to agree to invite the Head of Housing and Social Services Department to the next committee meeting to explain the situation.

In relation to the follow-up work on Bro Ffestiniog Swimming Pool, a member noted that he follow-up opinion was "Unsatisfactory" and that this caused concern for him. In response, the Senior Audit and Risk Manager notified the committee that there were many administrative and managerial changes related to this. The swimming pool remained under the management of the Provider and Leisure Department and the management of the hall had been transferred to Ysgol y Moelwyn. When the follow-up work had been looked at it had been agreed to address the swimming pool as it remained under the management of the Provider and Leisure Department but that it was intended to undertake a new audit in relation to the hall due to the intention to introduce new systems.

The officer reminded the members that officers from the Provider and Leisure Department had already attended this committee at its meeting in July 2011 to answer questions relating to leisure centre audits and possibly due to the

new management changes, that it would be reasonable for them to be allowed more time to get things in order. He suggested that the situation should be monitored for the time being and that internal audit would prepare a further follow-up report in six months' time.

RESOLVED to invite relevant officers from the Provider and Leisure Department to the next meeting to explain the situation.

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

Primary School – Budgetary Control

The Senior Audit and Risk Manager reported that there were local elements on school budgets. It was noted that there were just over 100 primary schools in Gwynedd and in this audit, they had looked at a sample of six schools, and in general, it was seen that adequate internal controls were not in place at the schools in managing their budgets. A version of the final report had been sent to the head teachers and the chairmen of the governing bodies of the six schools highlighting the weaknesses in their schools. The Education Department had also received a version detailing all of the weaknesses. In addition, the budgetary expectations/requirements had been brought to the attention of all schools in Gwynedd.

A member asked whether or not it was intended to look at other schools in Gwynedd within a specific timeframe. In response, the officer notified the committee that it was intended to take a sample of schools in a regular inspection every three or four years.

In response to a member's question regarding the balances questionnaire, the Head of Finance Department notified the committee that it was becoming increasingly relevant for some school balances to be quite high, and on an annual basis the Finance Unit sent a questionnaire to schools asking them to provide details on their balance levels.

Payments System – Arrangements for Separation of Duties

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

Welsh Church Fund

A member referred to one of the recommendations in the report namely that “more evidence should be obtained from the societies and eisteddfodau (such as a bank statement) with the original application” and he was of the opinion that this already existed when the Welsh Church Fund Sub-committee met to consider the applications. In response, the Senior Audit and Risk Manager notified the committee that this was a service where its administration has been moved to the Economy and Community Department. The recommendations in the audit report derived from discussions with officers and the Economy and Community Department had agreed with the recommendations.

Another member who had been the Chairman of the Welsh Church Fund Sub-committee at one time referred to another of the recommendations namely that "a letter should be sent to applicants to note whether or not their request has been successful" and he was of the opinion that this was a crucial matter. In response, the Senior Audit and Risk Manager notified the committee that in undertaking the audit it had been noticed that some of the applicants had not received a letter. The Head of Finance Department suggested that the Economy and Community Department should be contacted to emphasise the wishes of the members for them to implement the basic recommendations noted in the report. Agreed to accept the Head of Department's suggestion.

RESOLVED to send a letter noting the wish of the members of the Audit Committee for the Economy and Community Department to implement the recommendations.

Budget of the Adult Placement Scheme

RESOLVED to send a letter to the Social Services Department congratulating them on receiving an "A" opinion category.

Children - Fostering

RESOLVED to send a letter to the Social Services Department congratulating them on receiving an "A" opinion category.

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

5. REVENUE BUDGET 2011/12 - SECOND QUARTER REVIEW (SEPTEMBER 2011)

Submitted – the report of the Head of Finance Department that this committee had already received a report on the Local Government (Wales) Measure 2011 which meant that following the Local Government Elections in May 2012, the Council would need to change its arrangements from "alternative arrangements", namely a Council Board, to "executive arrangements", namely a Cabinet. Additionally the Measure would change the emphasis and form of the Audit Committee. In respect of form, the Measure insisted that at least one lay member would be on the committee and in terms of emphasis the committee would look at financial issues already submitted to the Principal Scrutiny Committee. The current Audit Committee had agreed to pilot the new procedures by receiving additional financial reports during 2011/12, namely quarterly budget reports and treasury management reports on investment and borrowing. He noted that the Council Board had the power to decide on recommendations made by the Audit Committee on the revenue budget.

The Head of Department submitted -

a) The quarterly report on the latest review of the Council's revenue budget for 2011/12 and a summary of the position of each department.

b) Further details relating to the main issues and the budget headings where significant variances were forecasted along with specific recommendations.

The Head of Department noted that steps had been taken in forming the 2011/12 budget to save £1.2m and this meant a slightly greater risk of overspend on some budgets. He referred to some of the matters arising and the steps taken to manage them in relation to inflation, corporate income, departmental income, the Consultancy Department, departmental expenditure (general), the Education Department and the Social Services Department.

In relation to Housing – Homelessness, a member noted the failure of the Department in using “rural” housing in the Private Leasing Plan rather than “urban” housing only. It was agreed to ask the Housing Department to extend the plan for the use of "rural" housing also.

A member drew attention to the £130k overspend in the first quarter for the Democracy and Legal Department and he asked whether more use could be made of computers e.g. to send committee agendas in electronic form rather than by post, in order to reduce the overspend. In response, the Senior Finance Manager said that the matter had been discussed with the Head of Department. He noted that the main problem now was the Printing Unit and a business review of the Unit's position had been undertaken recently. The Head of Democracy and Legal Department intended to submit a report on the situation to the Leadership Group as soon as possible.

RESOLVED to note the situation as submitted in the report of the Head of Finance Department and to recommend the following to the Council Board:-

(i) Housing and Social Services Department

Central Services

- To earmark £253k of the 'Category C' savings on a one-off basis for this year and on a permanent basis for 2012/13, to support the savings programme towards the £16 million;
- To transfer a budget of £50k on a one-off basis to alleviate the overspend position in the Children and Families Service budgets;

Children and Families Service

- **Out of County Placements** – that £500K of the underspend on various headings in 'Adult Services' be transferred on a one-off basis to alleviate the overspend position in the 'Out of County Placements' heading;
- **Agency Fostering** - that £30K of the underspend on various headings in 'Adult Services' be transferred on a one-off basis to alleviate the overspend position in this field;
- **Post-16 Services** - that £40K of the underspend on various headings in 'Adult Services' be transferred on a one-off basis to alleviate the overspend position in this field;

Adult Service

- **Learning Disability** - to return the £47k bid that will not be used this year to general balances;
- **General** – that the Housing and Social Services Department gives priority to meeting with requirements in undertaking minor improvements to residential homes within their current permanent budgets.

ii) **Education Department**

- **Compulsory Redundancy / Voluntary Early Retirements** - to transfer £107k to a specific reserve fund to meet the costs of teachers' redundancies / retirement in the future;
- **Integration** – to transfer £69k to the specific reserve fund for Integrating pupils with Additional Learning Needs in the future.

iii) **Consultancy Department**

- **Consultancy** – to approve a budget of £70k for the Department, to enable a reduction in the current income budget and to come from a reserve provision.

iv) **Democracy and Legal Department**

- To give further consideration to any financial support towards the situation of the Printing Unit after receiving and considering the report of the Head of Democracy and Legal Department on the matter.
- To transfer £112k from the Democracy Fund to the Members' Training Fund.

v) **Customer Care**

- To transfer £47k for specific redundancy costs to a specific fund in order to be able to respond to the changes in the capital programme.

RESOLVED also to send a letter to the Senior Housing Manager asking him to give consideration to using “rural” housing for the Private Leasing Scheme, in addition to “urban” housing, as this could reduce the overspend on the Homelessness budget.

6. **CAPITAL PROGRAMME 2011/12 - SECOND QUARTER REVIEW (30 SEPTEMBER 2011)**

Submitted – the report of the Head of Finance Department providing details of the revised programme and the relevant sources of finance. He noted that two main conclusions arose from the second quarter review, namely -

- a) That the actual expenditure up to 30 September 2011 was only 28% of the budget, compared with 34% in the equivalent half year last year.
- b) That as much as £19.4m was to slip from 2011/12 to 2012/13. It was a positive step that this had already been identified by the second quarter, but the slippage could affect the services.

In relation to the changes to the sources of finance, the Head of Department noted that the budget of the three year capital programme had shown an increase of £4,300,000 since the first quarter position. He provided details of the sources of finance.

The Head of Department referred to the 2012/13 slippage noting that the total level of slippages in the capital programme from 2011/12 to 2012/13 was £19,446,230. He provided details of the schemes that were likely to slip, however the slippage would not result in loss of grant funding. He confirmed that there was no risk of loss of money and that a group of officers had been established, including the Heads of Departments of Highways and Municipal,

Consultancy, Customer Care (Property) and Strategic and Improvement Departments in order to look at the slippages and to improve the system. For the next year, it was expected that the capital programme would receive more meaningful consideration in order to have fewer slippages.

A member noted his dissatisfaction that the majority of the expenditure profiles had not been submitted until September 2011. In response the Head of Finance notified the committee that two Departments had submitted their profiles early in the year, namely the Highways and Municipal Department and the Regulatory Department, however, unfortunately, the remaining Departments had not submitted their profiles on time and that was the reason why their profiles had not been included in the programme. It was agreed, in light of the concern regarding the level of current slippages in the capital programmes, that the officers were expected to have better control over the situation in future.

RESOLVED

a) To recommend that the Council Board accepts the 2011/12 revised programme and approves the relevant sources of finance.

b) To confirm, where there have been significant slippages, that the relevant departments (along with the Strategic and Improvement Department) are expected to report appropriately to the relevant Scrutiny Committee, noting the impact on service provided by the relevant Department.

7. TREASURY MANAGEMENT 2011/12 – MID YEAR REVIEW

Submitted – the report of the Head of Finance Department on treasury management activity during the current financial year.

The Investment Manager noted that the CIPFA Code of Practice on Treasury Management underpinned the Council's Treasury Management Strategy which included the need to decide on a financial strategy on the likely finance and investment activity for the coming financial year.

He noted that the Code of Practice also recommended that members should be informed of Treasury Management activity at least twice a year. This report ensured that this authority 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, debt management, investment activity, compliance with prudential indicators and the outlook for interest rates.

RESOLVED to accept the report for information.

8. TREASURY MANAGEMENT STRATEGY STATEMENT 2011/12

Submitted – the report of the Head of Finance Department on the Treasury Management Strategy Statement 2011/12.

The Investment Manager reported that the Council had approved the Treasury Management Strategy statement for 2011/12 on 3 March 2011 and

that it set out the framework for investing surplus cash to earn interest during the year.

He noted that the global financial situation had deteriorated during 2011/12, and that a number of banks on the Council's List of Authorised Counterparties had been downgraded. In accordance with the Treasury Management Strategy Statement for 2011/12, it was essential that any financial institution used for investment purposes had a credit rating of at least "A" and that the maximum limit set for the length of investment was two years. The Council's treasury consultants, Arlingclose, recommended that the limit should be changed to a credit rating of at least "A-" and a maximum length of investment of one year. It was not intended to add every bank with an "A" credit rating to the list, but this would allow investments to be made with the systematically important UK banks and building societies, and he provided details of them to the committee. The recent downgrade to some of the institutions had been due to a reduction in their long term rating (over 13 months) due to changes expected in the banking system in five years' time. Current restrictions on investments were between three and six months and the rating for these shorter terms had not been affected. Therefore, the risk was within the parameters set in the strategy for 2011/12.

He noted further that the Treasury Management Strategy Structure for 2011/12 included Term Deposits with Local Authorities as a high security investment and it had been a good source of income during 2011/12. The current limit for investments with other local authorities was £10m however the Council's treasury advisors recommended increasing this limit to £25 million.

The officers were thanked for their work in dealing with the matter.

RESOLVED to recommend to the Council on 15 December 2011 -
a) That the limit should be changed to a minimum credit rating of "A-" and a maximum investment of one year for any financial institution used for investment purposes.
b) To increase the limit for investments with other local authorities to £25m.

9. JOINT PROTOCOL BETWEEN THE EXTERNAL AUDIT AND INTERNAL AUDIT

Submitted – the report of the External Auditors and the Senior Audit and Risk Manager on the protocol.

The Local Manager - Wales Audit Office notified the committee that the protocol had been prepared following the recommendation of the Wales Audit Office on the Council's Internal Audit service. She noted that the protocol set out the working relationship between the Council's Internal and External Auditors.

The Senior Audit and Risk Manager noted that there was no substantial change to the working arrangements, and that this document's purpose was only to formalise the current arrangements. He emphasised that the relationship between them was currently working well.

RESOLVED to accept the report for information.

10. 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 31 October 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 -

Audit Status	Number
Planned	28
Working Papers Created	3
Field work started	18
Field Work Completed	5
Awaiting Review	1
Draft Report	5
Final Report	51
Closed	2
Total	113
Cancelled	3

He notified the committee that the 30 days allocated for Grants (Environment Group) had now been divided into six separate audits, five days each. 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. According to the indicator profile, the target for the end of quarter 3 was 60%. He also noted that the Internal Audit's actual achievement by the end of October 2011 was 46.9% and out of the 113 individual audits in the revised plan for 2011/12, 51 had been released finally and another two had been closed. In order to meet with the quarterly profile, there would be a need to close or release the final report for the remaining 15 audits by the end of December, namely 68 out of 113, and it was expected that this would be achieved.

In relation to the amendments to the plan, the officer provided details of those amendments to the members.

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 12.15pm.