
AUDIT COMMITTEE 12-07-12

Present: Councillor Trevor Edwards (Chairman)
Councillor John Pughe Roberts (Vice-chairman)

Councillors: Anwen Davies, Tom Ellis, Aled Ll. Evans, Chris Hughes, John Brynmor Hughes, Aeron M. Jones, Charles W. Jones, Sion W. Jones, Dilwyn Morgan, Michael Sol Owen, Angela Russell, Gethin G. Williams, R. J. Wright and Peredur Jenkins (Cabinet Member for Resources)

Lay Member: Mr John Pollard

Also Present: Dafydd Edwards (Head of Finance Department), Dewi Morgan (Senior Audit and Risk Manager), William E. Jones (Senior Finance Manager), Ffion M. Evans (Finance Manager – Resources and Corporate), Marina Parry Owen (Pensions and Investments Officer), Roland Thomas (Senior Finance Technician – Capital and Management), Amanda Hughes (Local Manager – Wales Audit Office), Derwyn Owen (Engagement Leader – Wales Audit Office), Huw Lloyd Jones (Local Authority Manager – Northern Region, Wales Audit Office) and Gwyn Parry Williams (Members' Support and Scrutiny Officer).

Apologies: Councillors E.T. Dogan, Huw Edwards

Welcome

The new members along with the lay member were welcomed to their first meeting of this committee.

1. CHAIRMAN

RESOLVED to elect Councillor Trevor Edwards as Chairman of the Committee for 2012/13.

2. VICE-CHAIRMAN

RESOLVED to elect Councillor John Pughe Roberts as Vice-chair of the Committee for 2012/13.

3. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any member present.

4. MINUTES

The Chairman signed the minutes of the meeting of this committee held on 13 February 2012, as a true record.

5. FUNCTIONS OF THE AUDIT COMMITTEE

A presentation was provided by the Senior Manager – Audit and Risk on the functions to be performed by the committee.

The officer noted that the Audit Committee had been established in 1999, which meant that it was one of the first local authorities in Wales to do so. The Terms of Reference at the time were based on the Audit Commission's

publication 'Called to Account – The Role of Audit Committees in Local Government (1996)'.

Although the establishment of an Audit Committee was considered as good practice by bodies such as CIPFA for several years, it was with the implementation of the Local Government (Wales) Measure 2011 that they became mandatory in Wales. Although the Measure allowed the Council to confer any suitable function to the Committee (and the Committee itself was to decide how to exercise its functions), the Measure also set out the functions the Committee was required to undertake. However, practically, the main statutory requirements of the committee were already being implemented in Gwynedd. One significant new function was the need for the Committee itself to prepare an annual report.

He provided details of the new draft Terms of Reference based on the requirements of the Local Government Measure and the Statutory Guidance that was prepared to support it. He also provided details on the committee's work programme for 2012/13.

A discussion explaining the role of the committee members was held, and in response to a question by a member, the Head of Finance Department confirmed that members could raise issues through the Chairman or the Senior Manager – Audit and Risk or the Head of Finance Department.

RESOLVED to accept the report.

6. STATEMENT OF ACCOUNTS 2011/12

Submitted – the statutory Statement of Accounts for the 2011/12 financial year providing details of the Council's financial activities during the year which ended on 31 March 2012.

The Cabinet Member for Resources explained that, to date, the draft accounts had not been audited and it was possible that some changes would be needed prior to submitting the final version to this committee on 27 September 2012. 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 2011/12 had been drawn up based on many new requirements, namely the International Financial Reporting Standards, which steered the Code of Practice on Local Authority Accounting. As the regulations required statements in a standard format, comparisons with other bodies' accounts were facilitated, but the statements had now become very technical.

The Head of Finance Department noted that a report regarding the accounts had been presented to the Cabinet on 12 June 2012. That report was more useful for internal/management purposes, while the Statement of Accounts was more suited for external / governance purposes.

The Head of Finance Department noted that the Audit Committee were "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 gave the responsibility for approving and certifying the draft accounts prior to 30 June 2012 to the Statutory Finance Officer (the Head of

Finance Department at Gwynedd Council). By now, elected members did not need to approve a draft version of the statement, but was submitted to this committee for information and this was considered to be good practice.

The Head of Finance Department 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 Head of Finance Department and the Senior Finance Manager provided a detailed explanation of the various accounting policies, the various accounts, statements and the relevant notes. Questions were raised by the members in relation to the accounts and the officers responded to them.

Members were reminded that the Pensions Fund accounts would be submitted to all the fund's employers in an Annual Meeting on 26 July 2012.

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

RESOLVED to accept and note the Statement of the Council's Accounts (subject to audit) 2011/12.

7. GWYNEDD COUNCIL'S ANNUAL GOVERNANCE STATEMENT 2011/12

Submitted – the report of the Senior Audit and Risk Manager presenting the Council's Annual Governance Statement for 2011/12 for the committee's approval.

He explained that the Accounts and Audit Regulations (Wales) 2005 required local authorities in Wales to produce an annual Statement of Internal Control (SIC) pursuant to regulation 4(2)(a). 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 and the CIPFA/SOLACE Framework noted that local authorities in Wales had to publish a wider Annual Governance Statement that incorporated the Statement of Internal Control. The purpose of the statement was to state that the authority had considered its governance framework, and to report that this remained adequate and continued to operate effectively, and to demonstrate that there were actions planned where any weaknesses in the governance arrangements had been identified.

He noted that the Council's Local Code of Governance had been approved by the Council Board in April 2011 and provided details on its contents based on the six core principles of the CIPFA/SOLACE Framework. He explained in detail what was required within the Annual Governance Statement. He emphasised that it was essential that evidence was in place to support the contents before publishing the final document. Due to the key role of the committee in the context of the Council's governance framework, the committee had a role in challenging the contents of the draft Annual Governance Statement, prior to recommending that it was signed by the Council Leader and Chief Executive. 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.

In response to an observation by a member regarding the clause "Complaints" in part 4 of the statement the Senior Manager – Audit and Risk confirmed that 2011/12 should have been noted as the correct year.

RESOLVED to approve the Annual Governance Statement, incorporating Gwynedd Council's Statement of Internal Control for the 2011/12 financial year and the period since the balance sheet date.

8. ANNUAL FINANCIAL AUDIT OUTLINE 2011/12 OF GWYNEDD COUNCIL

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

- a) Gave a true and fair view of the Council's financial position;
- b) Complied with all the relevant legal requirements; and
- c) Had been prepared in accordance with proper accounting 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 risks and proposed steps to address those risks.

She drew attention to the financial audit fee of £168,036 plus VAT for 2011/12 and it would be raised in equal instalments between November 2011 and October 2012. She noted that this fee was lower than the fee for the previous year.

RESOLVED to accept the report.

9. ANNUAL FINANCIAL AUDIT OUTLINE 2011/12 OF THE GWYNEDD PENSIONS 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 proper accounting 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 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 issue the audit report on the Pension Fund accounts, it was a requirement to ensure that all significant operational and financial risks that could impact on the audit were identified and addressed.

She drew attention to the financial audit fee of £25,095 plus VAT for 2011/12 and it would be raised in equal instalments between November 2011 and October 2012. She noted that this fee was on the same level as the fee in 2010/11.

RESOLVED to accept the report.

10. REGULATORY PROGRAMME FOR PERFORMANCE AUDIT 2012-13

Submitted – the report of the Local Authority Manager – Northern Region noting that this programme noted the work to be undertaken by the Auditor General and on his behalf in accordance with the Local Government Bill (Wales) 2009, Local Government Act 1999 and Parts 2 and 3A of the Public Audit Act (Wales) 2004. He noted that the Auditor General was required to undertake an annual improvement assessment in order to determine whether the Council was likely to comply with the requirements of part 1 of the Measure which included the following-

- a) A review of the Council's arrangements to secure continuous improvement.
- b) Improvement studies of areas which may hinder improvement or transformation or give rise to inefficiencies
- c) Bespoke pieces of work related to the Council's improvement objectives and arrangements
- ch) Audits of the Council's published improvement plan and its self-assessment of performance.

In relation to the Council's arrangements to ensure continuous improvement, the officer noted that the Auditor General had decided to undertake a full assessment of the Council's corporate arrangements every four years commencing next year. However, this year it was intended to look at the Council's progress when responding to a number of proposals/ recommendations that had been made in the past and he drew the members' attention to them.

He noted that collaboration with partners was not confined to Gwynedd Council alone and that a national study in this field would be undertaken across North Wales next year.

He referred to the work and the performance of the Wales Audit Office planned for 2012/13.

He drew attention to the performance audit fee of £134,188 plus VAT for the period between April 2012 and March 2013 and it would be raised in equal instalments between this period.

RESOLVED to accept the report.

11. OUTPUT OF THE INTERNAL AUDIT SECTION

The work of the Internal Audit Section for the period up to 31 March 2012

Submitted – the report of the Senior Audit and Risk Manager outlining the Internal Audit Section’s work in the period between 1 January and 31 March 2012. In submitting the information on the work completed during the period, the officer referred to -

- 18 reports on audits of the operational plan with the relevant opinion category shown.
- Seven other reports (memoranda etc.)
- Six grant reviews
- Six follow-up audits

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

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

IT Security in Schools

A member asked whether there were concerns regarding this audit in light of the fact that it had received a “C” opinion category.

In response, the Senior Manager – Audit and Risk stated that the audits that had received a “C” opinion category needed to be addressed as they did not meet the expected standards. In terms of information technology in schools, every school was expected to meet the same necessary standard as they accessed the Council’s network. Weaknesses in schools could weaken the whole network.

Primary Schools – Arrangements for Reducing Teacher Workload

A member noted that this audit had received a “C” opinion category and that a sample of six primary schools had been chosen. He asked how the balance between the larger and smaller schools was compared.

In response, the Senior Manager – Audit and Risk stated that around three or four audits were undertaken annually on primary schools on the grounds of theme and during a period of three years all the primary schools were included in a sample. Consideration was given to the size of the school during the reviews.

RESOLVED to accept the reports on the Internal Audit Section’s work for the period between 1 January and 31 March 2012 and to support the recommendations already submitted to the managers of the relevant services for implementation.

12. THE ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT 2011/12

Submitted – the annual report of the Senior Audit and Risk Manager for 2011/12. He explained that he was duty bound as the Council’s Head of Internal Audit to provide assurance on the whole system of internal controls of the authority. He added that assurance could not be absolute when giving his opinion, and the most that the internal audit service could provide to the Council was a reasonable assurance that there were no major weaknesses in the whole system of internal control. Based on the work that had been

completed, 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 had taken the following into consideration -

- a) Overall, good internal control had been found within each of the Council’s individual services.
- b) Where significant internal control weaknesses had been found, these matters were resolved by the Council’s officers, or otherwise addressed 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 2011/12 had included 113 audit tasks. Of these, 112 assignments had been completed, representing 99.12% of the plan. He noted that this performance compared with the performance in 2010/11 of 85.85% against a target of 85%.

The officer drew attention to the way in which internal audit reports were categorised. Of the reports that applied to the 2011/12 plan, 81.5% received opinion “A” or “B” which was slightly lower than the corresponding figure of 84% in 2010/11.

The officer noted that a final memorandum had been released for 15 follow-up audits during the period from 1 April 2011 to 31 March 2012 and each one of these audits had received an opinion of “acceptable” or “excellent” apart from one audit that received an opinion of “unsatisfactory” and another audit that had not been given an opinion category 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 2011/2012. He noted that a small reduction had been seen in the total number of days spent on productive work for the Council from 1,897 days between 1 April 2010 and 31 March 2011 to 1,821 days for the same period in 2011/12. There had been a reduction in the number of days that had to be used to complete the work of the previous year from 360 days in 2009/10 to 131 days in 2010/11 and then to only five days in 2011/12.

The results of the 2011/12 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 recommendation of the Wales Audit Office in its annual assessment for 2011.

RESOLVED to accept the report as the formal annual report of the Senior Audit and Risk Manager in accordance with the requirements of

the Code of Practice for Internal Audit in Local Government in the United Kingdom.

13. THE WALES AUDIT OFFICE REVIEW 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 was of the view that the Council had an effective internal audit service and it complied with the majority of the CIPFA Internal Audit Code of Practice standards.

It was noted again this year that the Head of Internal Audit Service (namely the Senior Manager – Audit and Risk) 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 understood that the Council would not change its structure.

The Head of Finance Department welcomed the heartening report. In relation to the independence standard, he noted that this was a risk that the authority had accepted for years and by now the external auditor accepted the situation.

RESOLVED to accept the report.

14. INTERNAL AUDIT PLAN 2012/13

Submitted – the report of the Senior Manager Audit and Risk providing an update of the current situation in terms of completing the 2012/13 internal audit plan.

He reported that the draft plan had been submitted to the committee on 13 February 2012 and the final report was submitted here.

He provided details of the situation as at 1 July 2012 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	56
Working Papers Created	8
Field work started	15
Draft Report	3
Final Report	14
Total	96

He notified members that the 2012/13 performance target was to have 95% of the audits in the amendments plan to be either closed or to have the final report released by 31 March 2013. He noted that Internal Audit's actual

achievement by the end of the first quarter was 14.6% and out of the 96 individual audits, 14 had been released finally by the end of the quarter. Performance was therefore slightly lower than the profile set. However, the field work had begun for 33.3% of the audits, which increased confidence that the targets would be reached by the end of the year and there was a strong possibility that the progress would be in accordance with the profile by the end of the second quarter.

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 2012/13 audit plan.

The meeting commenced at 10.00am and concluded at 12.15pm