
AUDIT COMMITTEE 27-09-12

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

Councillors: Anwen Davies, Eddie Dogan, Tom Ellis, Aled Ll. Evans, Sion W. Jones, Dilwyn Morgan, Michael Sol Owen and Peredur Jenkins (Cabinet Member – 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), Caroline Roberts (Investment Manager), Hawis Jones (Performance and Improvement Efficiency Manager), Amanda Hughes (Local Manager, Wales Audit Office), Derwyn Owen (Engagement Leader, Wales Audit Office) and Gwyn Parry Williams (Members' Support and Scrutiny Officer).

Apologies: Councillors Selwyn Griffiths, John B. Hughes, Aeron Jones, Charles W. Jones, Dyfrig W. Jones, Angela Russell, Gethin G. Williams, R.J. Wright

1. **DECLARATION OF PERSONAL INTEREST**

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

2. **MINUTES**

The Chairman signed the minutes of the meeting of this committee held on 12 July 2012, as a true record.

3. **FINAL ACCOUNTS 2011/12**

i) Statement of the Accounts

Submitted – by the Head of Finance Department, the revised statutory financial statements for the committee's approval. He noted that the reports of the Wales Audit Office which followed noted the main changes to the accounts.

In relation to the Council's funds and reserves, the Head of Finance Department referred to the fact that there were quite considerable sums and that currently he was in the process of reviewing them. He noted that it would be worth establishing a panel of members of this committee, along with the Cabinet Member – Resources and himself, who would act as head, to assess the relevant risks when reducing or retaining the various funds when preparing the 2013/14 budget.

RESOLVED that the following members serve on the panel - Chairman and Vice-chairman of the Committee and Councillors Aled Evans, Aeron Jones, Michael Sol Owen and Mr John Pollard.

ii) Report of the Appointed Auditor on the Audit of Financial Statements

In accordance with the 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 Engagement Leader – 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 2012 along with the income and expenditure in the year which ended at that time.

The Wales Audit Office was responsible for undertaking an audit and for reporting whether it was of the opinion that the reports presented the financial position of the Council accurately and fairly at the end of every year. The officer notified the Committee that the Appointed Auditor intended to issue an unqualified audit opinion on the Council's accounts for 2011/12.

In the Wales Audit Office's Report, the Engagement Leader WAO referred to one misstatement that had not been corrected, namely that the Council had not acknowledged its full obligations relating to capping and aftercare on the Cilgwyn waste disposal site and the cells which were full on the sites of Ffridd Rasus and Llwyn Isaf. In the auditor's opinion, the Council should make a provision of £2.477m in the accounts towards this work. However, it was noted that the Council had reserved resources within the reserve capital funds and within its capital budget in future to pay these costs.

The Engagement Leader drew attention to one relevant weakness in the internal controls, namely that the Council's income bank account reconciliation on 31 March 2012 included an unidentified balance item of £4,143. However, he noted that the account had now been reconciled.

The Engagement Leader referred to one concern regarding the qualitative aspects of accounting practices and the process of submitting financial reports under the Accounting Code of Practice and specifically the creditor balance. He noted that there had not been a detailed review of the £15.5m from the "other" entity balance to ensure that the distribution was appropriate. Following a review of the balance, it was noted that £5.6m had been distributed erroneously but this had now been corrected in the financial statements.

The Engagement Leader also noted that the Code of Practice required the Council to disclose details of associated party transactions within its accounts. In order to gather the relevant information, the Council had written to its members seeking details of associated party interests by 11 May 2012. At the end of the audit process, eight individuals who had been members of the Council during the 2011/12 financial year 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 report that the 2011/12 accounts were accurate and fair. He noted that he had responded reasonably in his letters to the Appointed Auditor two of the aforementioned matters, namely reconciling the Council's income bank account on 31 March 2012 which had now been resolved and the Cilgwyn waste disposal site and he drew the committee's

attention to the relevant paragraphs of the letter. The Head of Finance Department explained that the matter involving creditors had not been included in the letter and that it was a qualitative issue regarding the distribution between categories of creditors rather than the total of all creditors in the accounts.

With regard to the Cilgwyn site, the Senior Finance Manager explained that waste had been disposed on the site since the 60s and the former Gwyrfai Rural District Council had approved a planning application in 1973 to formally dispose of waste there. Technically, that Council, and later the former Arfon County Borough Council, had started making a provision for restoring and capping of the Cilgwyn site at that time. Later on, the sites of Cilgwyn and Penhesgyn in Anglesey were being run by the Môn Arfon Waste Company. This arrangement had ended in December 2008 and both Councils had decided to internalise the arrangement, namely that Anglesey County Council was responsible for the Penhesgyn site and Gwynedd Council was responsible for the Cilgwyn site. The officer noted that the company, when it was established, was responsible for restoring and capping the Penhesgyn site but the responsibility for the Cilgwyn site had remained with Arfon County Borough Council and following that with Gwynedd Council. When these responsibilities had returned to the Council after December 2008, the Council was required to face the cost. It was noted that £8.807m had been spent up until 31 March 2012, with a further £2.357m retained in the Capital Reserve Account at the end of the year because of slippage in the actual work programme. A further £800,000 would be kept in reserve as a provision, making a total of £11.964m.

The Head of Finance Department thanked Amanda Hughes and Derwyn Owen for their cooperation in the audit.

b) Gwynedd Pension Fund

As above, the Engagement Leader – 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 2012.

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 the year. The officer informed the Committee that the Appointed Auditor intended to issue an unqualified audit opinion on the accounts of Gwynedd Pension Fund for 2011/12.

The Engagement Leader noted that there had been no misstatements in the financial statements.

However, the Local Manager WAO referred to one relevant weakness in the internal controls, namely that the Council could not provide an accurate account to validate the change in value on the market that had been disclosed in the fund's account and despite significant additional work by officers, there remained an unexplainable difference of £100,000. She noted that the Council had to put an independent process in place to validate the change in the value of investments that would give the Council more control over the accuracy of the statements.

In response to the above, the Head of Finance Department stated that he welcomed the contents of the Wales Audit Office report, especially the intention to issue an unqualified audit report that the pension fund accounts for 2011/12 were accurate and fair. He noted that he had responded to the aforementioned matters in his letter to the Appointed Auditor and he drew the committee's attention to relevant paragraphs in the letter.

Some of the members raised questions on the accounts and officers responded to them, including the cost and benefits of various methods of accounting the value of the pension fund's investments on the stock market.

iii) Letters of Representation

Following discussions on the 2011/12 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 2011/12. 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 the 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 2011/12

Submitted - the report of the Head of Finance Department on the Council's actual treasury management activity during 2011/12, compared with the strategy that had been established for that financial year in March 2011. The report provided details of the economic background, the borrowing requirements and debt management, investment activity and compliance with prudential indicators.

The Head noted that the Council's borrowing activity remained within the constraints originally set. The total interest received on deposits was £941,479 which was higher than the £699,850 in the budget. There were no new defaults by banks in which the Council deposited money.

RESOLVED to accept the report for information.

5. REGISTER OF EXTERNAL AUDIT REPORTS

Submitted – the report of the Head of Strategic and Improvement Department requesting the committee to approve the procedure of addressing external auditors' reports.

The Performance Improvement and Efficiency Manager provided details of the External Auditors' reports on the Council's services since 2008 which included annual reports, occasional reports and national reports.

She noted that the Local Government (Wales) Measure 2011 made it a requirement that every external audit report was brought before the Audit Committee and the committee would then approve the benefits of implementing the recommendations noted by the external auditors. This would enable the committee to monitor the implementation of the recommendations in the reports and then provide the Cabinet with a brief summary. The officer provided details of examples from external audit reports.

She recommended the following procedure which should be followed to respond to the above requirements -

- a) The Head of Strategic and Improvement Department to maintain a corporate register of external audit reports and to submit this register to the Audit Committee every six months.
- b) Following receipt of an external audit report, the relevant Cabinet Member to submit a report on the benefits of implementing the draft recommendations to the Audit Committee.
- c) The Audit Committee to approve the benefits of implementing the recommendations.
- ch) The relevant Head to ensure that the recommendations were included in their work plans, with the Cabinet Member responsible for ensuring the recommendations were undertaken.

Adopting this procedure would ensure that the scrutiny committees could concentrate on scrutinising the implementation of any recommendation resulting from audit reports.

RESOLVED to adopt the above procedure for coordinating the work and providing an overview of the external auditors' reports.

6 . HOUSING BENEFIT AND COUNCIL TAX BENEFIT SERVICE REVIEW 2012

Submitted – the report of the Local Manager WAO, noting that the aim of this audit was to answer the question *“Are the Council's arrangements for providing its Housing Benefit and Council Tax Benefit Services likely to lead to an improvement?”* She noted that the audit had concluded that the good progress made in relation to most aspects of the delivery of housing and council tax benefit services should help the Council manage the scale of change anticipated in the next few years.

She provided an outline of the findings, conclusions and proposals for improvement.

The Head of Finance Department noted that he accepted the findings of the WAO and that he had responded to these matters and he drew the committee's attention to them.

RESOLVED to accept the report and approve the response of the Finance Department to the WAO recommendations.

7. INTERNAL AUDIT TERMS OF REFERENCE

Submitted - the report of the Senior Audit and Risk Manager. CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 stated that it was a requirement for Terms of Reference to be prepared for Internal Audit. The Terms of Reference established what the Council expected from its Internal Audit service.

The Terms of Reference also explained how Internal Audit assisted the Head of Finance Department and the Audit Committee in undertaking their duties and outlined the shape and form of the method in which Internal Audit achieved this.

The officer noted that the Code of Practice also stated that the Terms of Reference should be reviewed regularly. No amendments had been made to it since 2009 although they had been kept under review since then. Although the vast majority of the 2009 Terms of Reference remained relevant, it was timely to make minor necessary amendments to correct misspellings, clarify the meaning of some sentences and to include a reference to the *Joint Protocol between External Audit and Internal Audit*.

RESOLVED to accept and note the contents of the Internal Audit Terms of Reference and to support the Internal Audit Section to fulfil its role.

8. INTERNAL AUDIT STRATEGY 2012-2015

Submitted – the report of the Senior Audit and Risk Manager presenting the Council's three year Internal Audit Strategy which had been approved by the committee on 13 February 2012.

He noted that section 7.1 of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 ("the Code of Practice") stated that the Head of Internal Audit was required to produce an audit strategy - it was a high-level statement of how the internal audit service would be delivered and developed in accordance with its terms of reference and how it linked to the organisation's objectives and priorities.

It was reported that the Strategy contained numerous headings regarding the provision of Internal Audit:

- The purpose of Internal Audit
- How Internal Audit lived the Council's values
- How we maintained standards
- Which audits had to be delivered annually
- How would further audits be chosen
- Collaborating with others
- Types of audits which would be held
- Provisions
- Reporting methods
- Available resources
- Measuring quality and continuous improvement
- Risks faced by Internal Audit

RESOLVED to note the content of the Internal Audit Strategy 2012-2015.

9. OUTPUT OF THE INTERNAL AUDIT SECTION

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

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

- Nine reports on audits of the action plan with the relevant opinion category shown.
- Four other reports (memoranda etc.)
- Five grant reviews
- One follow-up audit

Details of further work that Internal Audit had in the pipeline were reported upon. This included two draft reports which had been released and 26 audits which were ongoing.

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

Recruitment – Identity Checks

A member noted that this audit had received an opinion category "C" and he asked whether or not a further report would be submitted to the committee on the audits that had received this opinion category.

In response, the Senior Audit and Risk Manager informed the committee that the target for completing follow-up work to this audit was 31 December 2012.

RESOLVED to invite the Head of Human Resources Department to the next committee meeting to explain the situation.

Licensing Unit

It was noted that this audit had received an opinion category "C" and the Chairman suggested that the Head of Regulatory Department should be invited to the next meeting to explain the situation.

In response, the Senior Audit and Risk Manager informed the committee that the target for completing follow-up work for this audit was 31 March 2013.

RESOLVED to agree to invite the Head of Regulatory Department to the next committee meeting to explain the situation.

Other Reports

RESOLVED to send a letter to the Finance Department congratulating them on receiving an "A" opinion category following three audits, namely -

**Main Accounting System – A Review of Key Controls
Payroll – BACS Runs and
National Non-Domestic Rates System – Review of Key Controls**

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

10. INTERNAL AUDIT PLAN 2012/13

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

He provided details of the situation as at 1 September 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	46
Working Papers Created	3
Field work started	16
Field Work Ended	3
Awaiting Review	3
Draft Report	3
Final Report	24
Total	98

He informed the Committee that the 2012/13 performance target had been to have 95% of the audits in the plan to be either closed or with the final report released by 31 March 2013. He noted that the actual achievement of Internal Audit at the end of quarter 1 was 15%. In order to achieve the end of quarter 2 target, a final report would have to be published or 11 other audits by 20 September 2012 (i.e. a total of 35 out of 98). He explained that this target had been achieved by the date of the committee and it was expected that three further final reports would be released by 30 September 2012.

In terms of amendments to the plan, the officer noted that it was intended to undertake the second part of the review of Security of Files and Data within Social Services during 2012/13. A review of the paper systems of the department had been undertaken during 2011/12 and it had been agreed that Internal Audit would review security of files and data on the new electronic system this year. However, information had been received that there had been a delay with this plan and, therefore, there would be no purpose in undertaking the audit until 2013/14.

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 11.30am.