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## AUDIT COMMITTEE 18-04-13

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

**Councillors:** Anwen Davies, Eddie Dogan, Huw Edwards, Aled Ll. Evans, Chris Hughes, John B. Hughes, Aeron Jones, Charles W. Jones, Sion W. Jones, Dafydd Meurig, Dilwyn Morgan, Michael Sol Owen, Angela Russell, Gethin G. Williams, R.J. Wright

**Lay Member:** Mr John Pollard

**Also Present:** Dafydd Edwards (Head of Finance Department), Dewi Morgan (Senior Manager Audit and Risk), Amanda Hughes (Local Manager – Wales Audit Office), Derwyn Owen (Engagement Leader – Wales Audit Office) and Gwyn Parry Williams (Member Support and Scrutiny Officer).

**Apologies:** Councillor Tom Ellis

### 1. DECLARATION OF PERSONAL INTEREST

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

### 2. MINUTES

The Chairman signed the minutes of the meeting of this committee held on 29 January and 14 February 2013, as a true record.

### 3. OUTPUT OF THE INTERNAL AUDIT SECTION

#### **The work of the Internal Audit Section for the period up to 31 March 2013**

Submitted – the report of the Senior Audit and Risk Manager outlining the Internal Audit Section's work for the period between 1 January and 31 March 2013. In submitting the information on the work completed during the period, the officer referred to -

- 31 reports on audits of the operational plan with the relevant opinion category shown.
- three other reports (memoranda etc.)
- six follow-up audits

Details of further work that Internal Audit had in the pipeline was reported upon. This included four draft reports which had been released and 15 audits which were ongoing.

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

## **Llwyddo'n Lleol**

A member asked whether or not the report included how many companies had received funding from the Council and also those who had not been successful.

In response, the Senior Manager Audit and Risk informed the committee that this was not part of this specific audit but the matter could be considered during the year.

## **Quality of Correspondence**

A member asked whether it would be possible for Council officers when responding to correspondences, to note their reference on letters from now on.

In response, the Senior Manager Audit and Risk informed the committee that he would pass the message on to the relevant officers.

## **Staff DBS Checks and Contract Terms – DBS Checks**

The Senior Manager Audit and Risk noted that DBS was the Disclosure and Barring Service which had now replaced the CRB.

A member referred to doubts that had been raised in relation to the legality of some aspects of the procedure of undertaking DBS checks, and that the Council should give due attention to the matter.

In relation to the two audits noted above which had received opinion category C, the Senior Manager Audit and Risk informed the committee that one audit involved staff checks and the other involved checks on the providers contracted by the Council. He noted that Internal Audit had been commissioned to undertake work on the arrangements for safeguarding children, young people and vulnerable adults following the critical review undertaken on Pembrokeshire Council. Both of these audits were part of a much broader work programme that was being implemented within the Council and had made great progress during the previous months.

## **Discretionary Housing Benefits**

In response to a question by a member regarding applications for housing benefit, the Head of Finance Department informed the committee that the Council was administrating the benefits on behalf of the Westminster Government's Department for Work and Pensions. He referred to the change that had come into force on 1 April 2013 and the reduction of 14% or 25% in payable benefit due to the "under occupancy" of the homes of 1,400 families in Gwynedd. Of the 1,400 families, 400 of them had written to the Council applying for a discretionary housing payment by the Council in order to replenish their benefit. He confirmed that the relevant officers were dealing with the applications in accordance with the factors that had been approved by the Council's Cabinet on 9 April 2013, when consideration had been given to a report on welfare reform and it had been decided to add £150,000 to the Discretionary Housing Payments fund to support families in 2013/14. The

Head of Finance Department explained how priority was given to supporting exceptional cases.

### **Council Tax System – A Review of Key Controls**

In response to a question by a member in relation to the taxation of empty houses, the Head of Finance Department informed the committee that the legislation had been changed during the past few years. He noted that a report on empty homes had been submitted to the full Council in December 2012 where it had been decided to charge full council tax on empty homes in order to encourage the owners to get the property back into use as soon as possible.

A member referred to the fact that some let properties paid business tax and asked whether or not it would be possible to obtain a list of these properties.

In response, the Head of Finance Department informed the committee that it was not appropriate to share information on individual accounts, but that the Council Tax/Non-domestic Tax list was available through the Valuation Office. He noted that several letters had been sent to the Welsh Government in relation to this in order to enable the Council to manage domestic homes that were turned into holiday homes and a response to the latest letter sent on 25 February 2013 was awaited.

A member asked whether or not it would be possible for the Communities Scrutiny Committee to discuss empty homes. The member was advised to draw the attention of the Chair and the Vice-chair of the Communities Scrutiny Committee to the matter.

### **Thin Client**

In response to a question by a member in relation to the term “thin client”, the Senior Manager Audit and Risk informed the committee that “Thin Client” was the name given to a computer system without a hard drive on the desktop and where the necessary software was kept on the server.

### **Change Management for IT Systems**

A member expressed concern that this audit had received opinion category C.

In response, the Senior Manager Audit and Risk informed the committee that a procedure had been established by the Senior Managers within the Information Technology Service but that it was not being implemented by staff within the service. Encouragement was needed to seek to improve the situation.

### **Processing of Energy Supplier Data**

A member drew attention to the fact that this audit had received opinion category C.

In response, the Senior Manager Audit and Risk informed the committee that it would be necessary, in due course, to install Automatic Meter Readers in every building. He noted that estimates were used very often at present, and that there was a need to press on site managers to provide energy suppliers

with periodical readings to ensure the accuracy of data and to enable energy conservation officers to identify exemptions sooner. In relation to the procedures, he noted that a lot of time had been spent inputting the data into the system, and consequently there was no time left to undertake adequate exercises and to investigate sufficient exceptions. He referred to the fact that there was a need for the Property Unit to evaluate the costs and benefits of ordering a module for the 'Stark' system that enabled data received from energy suppliers to be inputted automatically into the system.

In response to a further question by the member, the officer noted that there were Energy Officers within the Property Unit who considered contracts and energy costs. It would be possible to consider this as part of the follow-up work.

### **Equipment of Former Members**

A member was of the opinion that items of information technology equipment, such as laptops and mobile phones should be offered to former members rather than incurring costs of trying to collect the items and then destroying them after a period of time.

In response, the Senior Manager Audit and Risk informed the committee that this was an option but that there were risks associated with this that would need to be considered. He noted that no losses/fraud due to these management weaknesses had been identified as the value of the equipment had depreciated. Better recording arrangements needed to be in place in the future.

### **Members' Salaries and Expenses**

A member asked whether or not it would be possible for them to submit their applications for expenses etc. online?

A member noted that clock readings were not included on the travelling expenses form by now.

In response, the Head of Finance Department informed the committee that the procedure for claiming travelling costs etc. for members and officers was a matter that could be updated. Consideration would be given in due course to introducing an online self-service procedure for claiming expenses as part of the new human resources and payroll system.

### **General**

A member suggested that a Working Group should be established to consider the audits that received opinion category C.

### **RESOLVED**

- a) To accept the reports on the Internal Audit Section's work for the period between 1 January and 31 March 2013 and to support the recommendations already submitted to the managers of the relevant services for implementation.**
- b) To establish the following Working Group to consider the audits that received opinion category C -**

**The Chair and Vice-chair of the Audit Committee and Councillors Aled Ll. Evans, Sion W. Jones and Angela Russell, but that all committee members are given the opportunity to serve on the Working Group in the future and to be chosen on a rota basis.**

#### **4 . THE ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT 2012/13**

Submitted – the annual report of the Senior Audit and Risk Manager for 2012/13. 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. On the basis of the work that had been completed during 2012/13, the officer was satisfied that Gwynedd Council had a **“sound framework of internal control. This assists in providing assurance in the arrangements for ensuring effective and efficient 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. However, there is a need to further develop the formal processes with regards to recording risks within the Council's business units”**. It was intended to prepare an action plan in order to improve these arrangements for managing risks and to submit it to the Audit Committee on 18 July 2013.

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 2012/13 had included 100 audit tasks. Of these, 95 assignments had been completed, representing 95% of the plan (the corresponding performance in 2011/12 was 99.12%) against a target of 95%. He provided details of the audits from the 2012/13 plan that had not been finalised before 31 March 2013.

The officer drew attention to the way in which internal audit reports were categorised. Of the reports that applied to the 2012/13 plan, 82.9% had received opinion “A” or “B” which was slightly higher than the corresponding figure of 81.5% in 2011/12. No audit had received a ‘CH’ opinion.

The officer noted that a final memorandum had been released for nine follow-up audits during the period from 1 April 2012 to 31 March 2013 and each of these audits had received an opinion of “acceptable” or “excellent” apart from one audit which had received an opinion of “unsatisfactory.” 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 2012/13. He noted that a reduction was seen in the total number of days spent on productive work for the Council from 1,821 days between 1 April 2011 and 31 March 2012 to 1,571 days for the same period in 2012/13 but this had been planned for. There had been a significant reduction in the number of days that had to be used to complete special investigations or responsive audits – down from 133 in 2011/12 to 39 in 2012/13. There had been a small reduction in the number of days lost due to illness, from 62 in 2011/12 to 55 in 2012/13.

The results of the 2012/13 performance indicators were submitted and it was noted that all targets had been met.

In considering compliance with the code of practice, the Wales Audit Office had noted in July 2012 that the Council had an effective Internal Audit Service that complied in most respects with the standards of the Code of Practice. The Internal Audit partly met the Independence standards due to other responsibilities of the Senior Manager Audit and Risk in addition to Internal Audit. This had been reported to the Audit Committee for a number of years.

The officer noted that the draft internal audit plan for 2013/14 had been submitted to this committee on 14 February 2013 and it was nearly finalised by now. He drew attention to the fact that the Public Sector Internal Audit Standards had come into force on 1 April 2013, replacing the Code of Practice for Internal Audit in Local Government in the United Kingdom. No significant changes were expected in Internal Audit's working practices as a result of this, but the service would continue to assess its compliance with the new standards during the year and all of the Internal Audit staff had recently participated in a self-assessment day against the new standards. He provided details of Internal Audit's performance indicators for 2012/13.

**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 for 2012/13 and to congratulate the Internal Audit Section for their work.**

## **5. ANNUAL FINANCIAL AUDIT OUTLINE 2012/13 OF GWYNEDD COUNCIL**

Submitted - the report of the Engagement Leader. The Annual Financial Audit Outline had been prepared to satisfy the requirements of the auditing standards and proper audit practices. He noted that the Appointed Auditor was required to examine and certify the accounts of the Council, satisfying himself that –

- a) The accounts gave a true and fair view of the Council's financial position.
- b) The accounts had been prepared in accordance with the regulations under Section 39 of the Public Audit Act (Wales) 2004 (Accounts and Audit (Wales) Regulations 2005).
- c) The accounts complied with the requirements of all the other statutory provisions that were applicable to them.
- ch) That proper practices had been observed in the compilation of the accounts.
- i) That the Council had made proper arrangements for securing economy, efficiency and effectiveness in terms of its use of resources.

In addition, the Appointed Auditor was required to certify that the audit had been completed in accordance with the Public Audit (Wales) Act 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.

He drew attention to the financial audit fee of £168,036 plus VAT for 2012/13 noting that this fee was set at the same level as in 2011/12.

The Head of Finance Department thanked the Engagement Leader for the report. He noted that the risks reported upon in the audit of 2011/12 accounts, such as bank reconciliation for income had received due attention during 2012/13. He confirmed that the Finance Department was collaborating with the Wales Audit Office on the Council's accounts and that they would be submitted in draft form to this committee on 18 July 2013.

A member drew attention to the possibility of reducing the audit fee for next year.

A member requested information on the number of hours the Wales Audit Office staff had spent working on the audit.

In response, the Engagement Leader informed the committee that the number of hours spent on the audit would not be revealed but rather the fee had been set for providing opinion on the accounts. He noted that the fee had been set based on risk, and due to the low risk, the fee for this Council was one of the lowest fees in Wales.

**RESOLVED to accept the report.**

## **6. ANNUAL FINANCIAL AUDIT OUTLINE 2012/13 OF THE GWYNEDD PENSIONS FUND**

Submitted – the report of the External Auditor outlining her annual financial audit of the Council as the administrating authority of the Pension Fund. She noted that the Appointed Auditor was required to consider and certify the accounts of the Pension Fund, satisfying herself that –

- a) The accounts gave a true and fair view of the Pension Fund's financial position.
  - b) The accounts had been prepared in accordance with the regulations under Section 39 of the Public Audit Act (Wales) 2004 (Accounts and Audit Regulations (Wales) 2005).
  - c) The accounts complied with the requirements of all the other statutory provisions that were relevant to them.
  - ch) Proper practices had been observed in the compilation of the accounts.
- In addition, the Appointed Auditor was required to certify that the audit had been completed in accordance with the Public Audit (Wales) Act 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 2012/13 noting that this fee was set at the same level as in 2011/12.

The Head of Finance Department thanked the External Auditor for the report. He noted that the risks that the Wales Audit Officer had reported on in the audit of the Pension Fund's accounts for 2011/12, such as validating the change in the value of investments had received due attention during 2012/13. In response to an observation by a member in relation to the audit fee, the Head of Finance Department confirmed that the value of the Gwynedd Pension Fund was over £1 billion.

**RESOLVED to accept the report.**

The meeting commenced at 10.30am and concluded at 12.00pm.