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## AUDIT COMMITTEE 18-07-13

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**Present:** Councillor Trevor Edwards (Chairman)

**Councillors:** Eddie Dogan, Tom Ellis, Aled Ll. Evans, Aeron M. Jones, Charles W. Jones, Sion W. Jones, Dafydd Meurig, Dilwyn Morgan, Michael Sol Owen, Angela Russell 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), Roland Thomas (Senior Finance Technician – Capital and Management), Hawis Jones (Performance and Efficiency Improvement Manager), Amanda Hughes (Local Manager, Wales Audit Office), Nigel Griffiths (Performance Assessment Leader, Wales Audit Office), Huw Lloyd Jones (Local Government Manager - North Wales Region, Wales Audit Office) and Gwyn Parry Williams (Member Support and Scrutiny Officer).

**Apologies:** Councillors Anwen Davies, Huw Edwards, John B. Hughes, John P. Roberts, Gethin G. Williams.

**1. CHAIRMAN**

**RESOLVED to re-elect Councillor Trevor Edwards as Chairman of the Committee for 2013/14.**

**2. VICE-CHAIRMAN**

**RESOLVED to re-elect Councillor John Pughe Roberts as Vice-chairman of the Committee for 2013/14.**

**3. DECLARATION OF PERSONAL INTEREST**

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

**4. MINUTES**

The Chairman signed the minutes of the meeting of this committee held on 18 April 2013, as a true record.

**5. STATEMENT OF ACCOUNTS 2012/13**

Submitted by the Cabinet Member – Resources – the statutory Statement of Accounts for the 2012/13 financial year providing details of the Council's financial activities during the year which ended on 31 March 2013.

The Head of Finance Department 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 26 September 2013. 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. Several requirements of the IFRS (International Financial Reporting Standards) were based on Code of Practice on Local Authority Accounting and applied to the Council's Statement of Accounts for 2012/13. As the regulations required statements in a standard format, comparisons with other bodies' accounts were facilitated, but the statements had now become technically complex and difficult to understand.

The Head of Finance Department noted that a simple and concise report regarding the 2012/13 accounts had been presented to the Cabinet on 11 June 2013. 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 had given the responsibility for approving and certifying the draft accounts prior to 30 June 2013 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.

The Head of Finance Department explained the valuation of the value of pension assets and liabilities of the Council as an employer and members were reminded that the accounts of the Pension Fund, as part of the annual report, would be presented to the employers of the fund at an Annual Meeting on 25 July 2013.

The Cabinet Member – Resources thanked all relevant officers for their work on the accounts.

**RESOLVED to accept and note the 2012/13 Statement of the Council's Accounts (subject to audit).**

## 6. GWYNEDD COUNCIL'S ANNUAL GOVERNANCE STATEMENT 2012/13

Submitted – the report of the Senior Audit and Risk Manager presenting the Council's Annual Governance Statement for 2012/13 for the committee's approval.

He explained that the Accounts and Audit Regulations (Wales) 2005 (as amended by the Accounts and Audit Regulations (Wales) 2010) stated that the local government body should conduct a review at least once a year of the effectiveness of its system of internal control and should include a statement on internal control, prepared in accordance with proper practices, when relevant, with any statement of accounts it was obliged to publish. 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 profile of the statement was continually increasing and over the last year, the Wales Audit Office had undertaken a national review of governance, concentrating specifically on the development of the statement. Wales Audit Office officers would report to this committee on the outcome of the study. 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. He noted that an additional clause in this year's Statement had derived from the requirements of December 2012 Addendum, which referred specifically to the role of the Audit Committee in the process. When signing the Governance Statement, the Chief Executive and Council Leader confirmed *"We have been advised on the implications of the result of the **review of the effectiveness of the governance framework** by the Audit Committee, and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework.**"*

In relation to the Governance Framework, he drew attention to the December 2012 Addendum to the CIPFA/SOLACE guidelines in relation to the key elements of the systems and processes that were part of an authority's governance. The Council's Local Code of Governance was approved by the Council Board on 5 April 2011 and it was based on the six core principles in the CIPFA/SOLACE Framework.

In relation to the review of the efficiency of the Governance Framework, the officer noted that the Audit Committee needed to obtain assurance that the governance arrangements described in Part 3 of the Annual Governance Statement worked as they should. In order to obtain this assurance, the committee would need to consider whether or not the activities described in Part 4 of the Statement would be sufficient to reach an opinion regarding these governance arrangements. The draft Governance Statement, subject to

some minor modifications, was approved by the Corporate Management Team on 26 June 2013. Moving forward to 2013/14, the intention was for the Governance Arrangements Assessment Group to meet at least on a quarterly basis throughout the year and possibly more often at the end of the financial year at the time of preparing the Governance Statement, in order to consider any work that had taken place in the previous period to assess the effectiveness of the governance arrangements. The Group would then report to the Audit Committee.

**RESOLVED to approve the Annual Governance Statement, incorporating Gwynedd Council's Statement of Internal Control for the 2012/13 financial year and the period since the balance sheet date.**

## **7. REGISTER OF EXTERNAL AUDIT REPORTS**

Submitted - the report of the Head of Strategic and Improvement Department on the register of external audit reports.

The Performance and Efficiency Improvement Manager noted that one of the requirements of the Local Government (Wales) Measure was that every external audit report was brought before this committee and the committee would approve the benefits of implementing the recommendations noted by the external auditors. This would enable the committee to keep an overview on the implementation of the recommendations of the reports and provide the Cabinet with a brief summary. She provided details of examples from external audit reports.

She noted that reports could be totally relevant to Gwynedd or could be national reports that included a reference to Gwynedd Council. In addition to this, the Audit Committee had requested the Strategic and Improvement Department to maintain a corporate register of external audit reports and to submit them to this committee every six months. She referred to the Register of External Audit Reports on the Council's services since January 2010 which were a combination of annual reports, occasional reports and national reports where reference had been made to Gwynedd Council. She drew attention to the new audits highlighted in yellow in the appendix to the report that had been brought to the attention of the Department since the register had been submitted to this committee on 14 February 2013.

**RESOLVED to note the content on the Register of External Audit Reports.**

## **8. ANNUAL IMPROVEMENT REPORT**

The Chairman welcomed Huw Lloyd Jones, Local Government Manager – North Wales Region, Wales Audit Office, to the meeting.

The Manager gave thanks for the welcome and he presented the Annual Improvement Report and made specific reference to three sections in the report, namely -

- a) An assessment of the Council's performance in 2011/12.
- b) Arrangements for self—evaluation of 2011/12 performance.
- c) Arrangements in terms of planning for improvement in 2012/13.

He noted that the main contributors towards the performance assessment were -

- The Council's report on the 2011/12 performance
- WAO views and work on benefits and homelessness services
- CSSIW – social care
- Estyn - Children and Young People
- Welsh Language Commissioner

He referred to the findings of the performance assessment as follows -

a) That overall performance was good with 71.4% of key and statutory performance indicators improved or the same and that 65.8% exceeded the Welsh average.

b) Vulnerable people.

24.9% per 1,000 of the population were in care homes, compared with 26.7% in the previous year. The percentage was improving but it was worse than the Wales average but there was a target to reach the Wales average in two years. 69.6% of older people's care plans had been reviewed compared with 62.7% in the previous year. The percentage was improving but was lower than the Wales average; however, the intention was to reach the Wales average by the end of the year.

He noted that the performance assessment conclusion was that the Council had made good progress in delivering improvement in most of its priority areas.

In relation to the self-evaluation of the 2011/12 performance, he noted the following -

- CSSIW – the director's annual report was an accurate analysis of the service's performance.
- Estyn – pre-inspection self-evaluation was robust but -
- Overly reliant on performance indicators and progress vs. projects
- Lack of qualitative analysis in relation to service users, citizens' surveys and panels, scrutiny, audit and inspection reports
- Lack of consistency in provision of baseline data and outcome measures; but, accountabilities of Cabinet members, Delivery / Improvement Panels, Scrutiny Arrangements and Ffordd Gwynedd.

He noted that the conclusions of the self-evaluation was that new governance arrangements had the potential to support improved culture of self-evaluation, but not yet fully realised in the annual self-assessment.

He referred to the improvement planning findings for 2012/13. He noted that the 2012/13 Improvement Plan met the requirements of the Measure and that there was strong financial leadership and planning, but that the Plan lacked clarity.

He noted that the improvement planning conclusions were that the service and financial planning were sound in most respects but that some high-level businesses plans lacked focus on priorities and were not clearly reported to the public.

The main conclusion of the report was that the Council was managing its improvement programme well but that the reporting of performance could be clearer and more comprehensive.

Members asked questions and the Manager responded to them.

The Manager was thanked for the presentation.

## **9. GOVERNANCE ARRANGEMENTS – REVIEW OF THE COUNCIL'S ANNUAL SELF—ASSESSMENT**

The Chairman welcomed Nigel Griffiths, Performance Assessment Leader, Wales Audit Office to the meeting.

The Leader gave thanks for the welcome and presented a report on the Governance Arrangements. He noted that the Council had been required to prepare an Annual Governance Statement since 2010/11 and hold a review of its governance framework at least once a year. The Auditor General had to audit governance arrangements within the Council in order to meet Local Government Measure duties. He noted that the review focussed on providing assurance over the self-assessment and suggested improvements for the Council's 2013/14 review of its governance framework.

He expanded upon the strengths and weaknesses of the review. He noted that the general conclusion of the review was that the Council's self-assessment of its governance arrangements lacked corporate ownership and robust scrutiny and challenge.

He noted that the next steps would be -

- a) To collate findings for all Councils and use them to draw-up a national report looking at common trends and themes.
- b) Wales Audit Office's Improvement Assessment Letter 1 was planned for issue in the next few weeks – would include a brief summary of the findings and proposals for improvement.

Members asked questions and the Performance Assessment Leader responded to them.

In response to some of the points raised by the Performance Assessment Leader, the Senior Audit and Risk Manager acknowledged that the arrangements of Gwynedd Council were similar to those of many other Councils, but that the Council's arrangements were not amongst best practice and he welcomed some of the aspects in the report which highlighted that corporate commitment was required in order to change.

The Senior Manager took advantage of the opportunity to remind the Committee that the Governance Arrangements Assessment Group had now been established, as referred to in Item 6, and that this would give the Council an opportunity to improve its arrangements for undertaking a self-assessment of its governance arrangements. Although one annual governance statement was required, that did not mean that a self-assessment should only be undertaken once a year – it should be an ongoing process throughout the year.

The Senior Manager emphasised that it was important that the Audit Committee received regular feedback from the Governance Arrangements Assessment Group, and requested it unless it was received.

The Leader was thanked for the presentation.

**10. 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.**

**11. REPORT OF THE CONTROL IMPROVEMENT WORKING GROUP**

Submitted – the report of the Chairman of the Audit Committee regarding a meeting of the abovementioned working group held on 28 June 2013 to consider five audits that had received a category C opinion during the period between 1 January and 31 March 2013, namely -

- a) Contract Terms – DBS Checks
- b) Staff DBS Checks
- c) Equipment with Former Members
- ch) Change Management for IT Systems
- d) Processing of Energy Supplier Data

Senior Managers had been invited to attend the meeting to discuss the matters arising from the audits and the work done since the audit reports had been published in order to strengthen the internal controls in question.

The Senior Audit and Risk Manager acknowledged that the meeting had been very beneficial and was a means of providing an opportunity to discuss the audits and discuss the steps put in place to strengthen the controls. He noted that in future it would be possible to extend the role of the Working Group to consider external audits also, where weaknesses had been identified.

**RESOLVED**

**a) That the work of the Working Group was to continue and that the following would serve on it next time -**

**The Chairman and Vice-chairman of the Audit Committee and Councillors Dafydd Meurig, Dilwyn Morgan and Michael Sol Owen.**  
**b) As a result of the Equipment with Former Members Audit, to emphasise the need for each member to receive Data Protection training and request assurance that this has taken place.**

## **12. OUTPUT OF THE INTERNAL AUDIT SECTION**

### **The work of the Internal Audit Section for the period up to 30 June 2013**

Submitted – the report of the Senior Audit and Risk Manager outlining the Internal Audit Section's work in the period between 1 April and 30 June 2013. In submitting the information on the work completed during the period, the officer referred to -

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

Details of further work that Internal Audit had in the pipeline was reported upon. This included three 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 -

#### **Debtors System – Review of Key Controls**

A member noted that an external company had run Hafan Pwllheli at one time with the Council receiving a relatively substantial income from it. By now, the Council itself ran Hafan and he noted that the number of users, along with the income, had reduced. He asked whether or not the situation should be reconsidered and to externalise the management of Hafan once again.

In response, the Head of Finance Department noted that the situation of Hafan was problematic. He referred to the 2013/14 budget monitoring report that had been submitted to the Cabinet on 16 July 2013 which noted that the income of Hafan was low. When it had been decided to internalise the management of Hafan, a warning had been given at that time that it would involve a risk; but the timing had been very unfortunate also. Following the 2008 economic slump, it was realised that there had been a reduction in the number of berthholders. A request had already been made to the Economy and Community Department for a review of the situation regarding the way forward and the Head of Department intended to report on this in the autumn.

#### **Llwyddo'n Lleol**

In response to a member's question in relation to the number of companies etc. who had received a grant and who had become bankrupt, the Senior Audit and Risk Manager noted that monitoring arrangements had been addressed during the audit.

#### **Banking Arrangements in the Leisure Centres**



A member referred to an internal audit undertaken during the past two years of the banking arrangements of some of the leisure centres in Gwynedd and that it had been given opinion category C. He had noted back them that there had been some criticism regarding the banking management arrangements of Blaenau Ffestiniog Leisure Centre and it appeared that the situation continued.

In response, the Senior Audit and Risk Manager informed the committee that the Working Group established to consider the audits given opinion category C, could consider this particular audit.

**RESOLVED to accept the reports on the Internal Audit Section's work for the period between 1 April to 30 June 2013 and to support the recommendations already submitted to the managers of the relevant services for implementation.**

### **13. INTERNAL AUDIT PLAN 2013/14**

Submitted – the report of the Senior Manager Audit and Risk providing an update of the current situation in terms of completing the 2013/14 internal audit plan.

He provided details of the situation as at 1 July 2013 along with the time spent on each audit to date. The following table was highlighted, which revealed the current status of the work in the operational plan -

<b>Audit Status</b>	<b>Number</b>
Planned	80
Working Papers Created	1
Field work started	7
Field Work Ended	2
Awaiting Review	4
Draft Report Issued	4
Final Report Issued	9
<b>Total</b>	<b>107</b>

He notified members that the 2013/14 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 2014. He noted that Internal Audit's actual achievement by the end of the first quarter was 8.4% and out of the 107 individual audits, 9 had been released finally by the end of the quarter. Therefore, the performance was lower than the profile set, which caused some concern, but it was the subject of an ongoing review in order to rectify the situation by the end of the year. Losing staff resources etc. recently was one factor that had contributed to this. He also noted that there was a need to revisit the amount of time spent on some audits.

In relation to amendments to the plan, the officer noted that there was only one amendment to the plan, namely an addition to the audit of the Appetite for Life Grant.

**RESOLVED to note the contents of the report as an update on progress against the 2013/14 audit plan.**

**14. INTERNAL AUDIT CHARTER**

Submitted – the report of the Senior Audit and Risk Manager noted that the Terms of Reference for Internal Audit, prepared in accordance with the requirements of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, had been adopted by the Audit Committee on 27 September 2012.

He noted that the Public Sector Internal Audit Standards had come into force on 1 April 2013, to supersede the CIPFA Code of Practice. One of the requirements of the new Internal Audit Standards was the need to set out an Internal Audit Charter instead of Terms of Reference. The Standards, and a supporting Local Government Application Note published by CIPFA detailed the necessary contents of an Internal Audit Charter for a Local Government Body. The Local Government Application Note remarked that a comparison between the Terms of Reference required under the 2006 Code and an Internal Audit Charter showed only the following differences -

- a) The Terms of Reference had to identify internal audit's contribution to the review of the effectiveness of the control environment and required and enabled the Head of Internal Audit to deliver the annual audit opinion.
- b) The Standards asked mostly for the same content as in the Terms of Reference apart from those specific points set out in the public sector requirement to "PSIAS 1000". He provided details of what should be included in an Internal Audit Charter for a Local Government Body – according to the Standards and Local Government Application Note published by CIPFA.

**RESOLVED to approve the Internal Audit Charter and to support Internal Audit to achieve its role.**

At the end of the meeting, the Chairman referred to the fact that this would be the last meeting of this Committee that Gwyn Parry Williams, Member Support and Scrutiny Officer would be attending as he would be retiring at the end of this month. He thanked him for his service over the years and he wished him a happy retirement.

The meeting commenced at 10.30am and concluded at 1.10pm