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## AUDIT COMMITTEE 3/12/13

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

**Councillors:** Anwen Davies, Eddie Dogan, Tom Ellis, John B. Hughes, Charles W. Jones, Dafydd Meurig, Dilwyn Morgan, Michael Sol Owen, Angela Russell, Gethin Williams, R.J. Wright and Peredur Jenkins (Cabinet Member for Resources)

**Lay Member:** Mr John Pollard

**Also Present:** Dafydd Edwards (Head of Finance Department), Hawis Jones (Performance Improvement and Efficiency Manager – for Item 5 only), William E. Jones (Senior Finance Manager), Dewi Morgan (Senior Manager – Audit and Risk), Caroline Lesley Roberts (Investment Manager – for Items 1-8) and Bethan Adams (Member Support and Scrutiny Officer).

**Apologies:** Councillor Aled Ll. Evans

### 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 26 September 2013, as a true record.

### 3. EXTERNAL AUDIT REPORTS

Submitted - the report of the Performance Improvement and Efficiency Manager. It was noted that one of the principal duties of the Audit Committee according to the Local Government (Wales) Measure 2011, was to review and assess the authority's arrangements for managing risks, internal controls and corporate governance. She elaborated and stated that there was a responsibility to ensure that arrangements and processes were in place to ensure that any recommendations included in external audit reports were implemented.

It was noted that a list of the external audit reports received by the Council were submitted to the Audit Committee every six months but it was intended from now on to concentrate on the main reports, namely:

- ESTYN Reports
- Care and Social Services Inspectorate Wales (CSSIW) Reports
- Annual Reports of the Wales Audit Office (WAO)

It was noted that the completed register of external audit reports would be available to the members by contacting the Head of Strategic and Improvement Department.

It was reported that the Scrutiny Forum would be considering the matter at its meeting on 13 December and would seek clarity regarding the role of the Audit Committee, the Scrutiny Forum and the scrutiny system to ensure that there was no duplication.

In response to a question regarding who would be scrutinising the other reports, it was noted that the departments and Cabinet Members would ensure action and that the reports would be available for the Scrutinisers should they wish to scrutinise them.

**RESOLVED:**

- i) **To approve the new arrangement of reporting and concentrate on the principal reports, namely:**
  - **ESTYN Reports**
  - **Care and Social Services Inspectorate Wales (CSSIW) Reports**
  - **Annual Reports of the Wales Audit Office (WAO)**
- ii) **To approve the proposal to discuss the best method of scrutinising and holding to account the main reports at the next meeting of the Scrutiny Chairs Forum on 13 December.**

**4. REVENUE BUDGET 2013/14 - SECOND QUARTER REVIEW (SEPTEMBER 2013)**

Submitted – the report of the Head of Finance Department, noting that in accordance with the requirements of the Local Government (Wales) Measure 2011, that it was expected for the Audit Committee to scrutinise budget monitoring reports when appropriate.

The Cabinet Member for Resources reported that second quarter budget review reports had been submitted to the Cabinet on 26 November 2013. The following decisions were submitted for the attention of the committee to scrutinise –

- “a) To note the latest projections of the 2013/14 budgetary position and commit as individual Cabinet Members, with the relevant heads of departments, to take appropriate steps regarding matters under their control, as there is strong doubt as to whether we will bail out the total overspend of any departments, and where appropriate it is expected that evidence is seen of managerial measures which reduce the overspend during the remainder of 2013/14.
- b) To release (£568k) of additional funding from the Reserves Budget to the Social Services Department in order to meet the cost of demographic changes.
- c) To release an element of the ‘Savings Ahead of Schedule’ budget in order to bridge some savings targets (the North Wales Procurement Unit and an element of e-Procurement) which are unlikely to be realised in full in 2013/14.”

It was noted that the budgets for which concern had been expressed were being addressed by the departments and the Cabinet Members, namely (£ below 2013/14 net overspend):

- Highways and Municipal Department – Waste £536k (and pressure on the 2014/15 budget)
- Provider and Leisure Department – Staff of Care Homes £290k and Leisure Sales £76k
- Education Department – Redundancy and Early Retirement in schools £259k

It was emphasised that it had been made clear to the departments and the Cabinet Members that it was not proposed to bail out departments for all the overspend at the end of the year as in previous years because of the challenging financial settlement for 2014/15 and it was expected that managerial measures were seen to be taken to reduce the overspend during the remainder of 2013/14.

It was reported that it had been originally projected in the budget that there would have been less Council Tax money collected because of the reductions scheme but as the Welsh Government had modified the scheme, an additional £520k had been received to what had been expected, along with an additional £221k from the investment made in the Heritable Bank.

The Head of Finance Department noted that more work had been undertaken to ascertain the reasons behind the overspend in the three fields where there were concerns since the report had been published.

In terms of the overspend of the Highways and Municipal Department in the field of Waste, it was reported that a report would be submitted to the Council Cabinet soon, examining the transformation of the method of collecting and disposing waste with more emphasis on recycling and that steps had already been taken to close the Ffridd Rasus site in Harlech as a waste disposal site. The Chairman noted that officers from the Highways and Municipal Department and the Cabinet Member for the Environment could be invited to the next meeting of the Controls Improvement Working Group regarding the matter.

With regard to the overspend in the Provider and Leisure Department, it was noted that employment issues were driving the overspend in the budget of workers in Homes and that Leisure sales were down because leisure centres were trying to promote healthy food in their cafes and it was proposed to increase income by means of better marketing.

It was noted that the Head of Finance Department, the Senior Manager - Audit and Risk and the Cabinet Member for Resources had made enquiries into the overspend in the Education Department under the heading of Redundancy and Early Retirement in Schools. It was explained that the relevant expenditure was appropriate for schools where there was a decrease in the number of pupils in order to balance the budget.

Members were given an opportunity to ask questions.

A member asked how many children were on the fostering list. In response, the Head of Finance Department noted that he would make enquiries and inform the member.

With regard to early retirements in the Education Department, a member noted that teachers retired early and then accepted posts in other schools and this prevented young people from having an opportunity. Furthermore, it was noted that classroom assistants were being used more and more rather than employing more teachers. Another member noted that members should discuss this with the Governors of their schools.

In response to an enquiry regarding the increase in the expenditure on services for older people because of demographic changes, the Head of Finance Department noted that budgetary provision was being made on the forecasted changes in demography but specific information regarding the numbers had been received recently. He elaborated that the specific information regarding demography assisted the department in evidencing the need for them to be bailed out for the additional cost. The Senior Finance Manager added that annual provision was in place to assist the department to keep up with the demographic changes.

A member enquired whether there was sufficient capacity within the Council to transform services in order to reduce the overspend in future. In response the Head of Finance Department noted that it was crucial for managers and staff to accept the idea of service transformation.

It was reported that the departments would receive target savings in February and it was expected for departments to think of ideas / plans to save money by the beginning of summer 2014 and to decide whether there was a sufficient resource within the Council for it to be achieved or whether an external resource was needed. It was added that the one-off resource of the Invest to Save fund would be available for departments to realise service transformation.

In response to an enquiry regarding what was the meaning of 'Other' on page 14 of Appendix 2, the Senior Finance Manager noted that the most significant variances were listed under specific headings and that several different budgets of the Education Department had been included together under the 'Other' heading because the variances between the expenditure level and the level of relevant budgets here were so small.

The Cabinet Member for Resources emphasised that difficult decisions had to be made to transform the way services were provided because the current arrangement was not sustainable in view of the financial challenge. He noted that there would be an opportunity for all Council members to participate in the process during the coming months.

In response to an observation regarding the overspend in the Maritime Service as a result of Hafan Pwllheli, the Head of Finance Department noted that a report would be submitted soon to the Council Cabinet examining the options in terms of the management of Hafan Pwllheli.

A member noted that consideration should be given to establishing a Trust for Pwllheli Harbour and Hafan Pwllheli and the Head of Finance Department confirmed that this would be amongst the options.

A member drew attention to the fact that Hafan Pwllheli was not losing money but rather it was not achieving the income target. In response, the Head of Finance Department noted that an expected income target had to be set for an asset in Council ownership.

In response to an enquiry regarding an overspend of £76,000 on the Telephone Service as a result of a failure to fully achieve the savings plan by the Customer Care Department, the Head of Finance Department explained that the overspend had been caused by a slippage in the timetable of the VoIP (Voice Over Internet Protocol) plan. He noted that an application for funding from the Invest to Save Fund to finance the plan would be submitted to the Council Cabinet.

A member thanked the Head of Finance Department and the staff of the Finance Department for their work in recouping 94% of the investment made in Heritable Bank thus far.

#### **RESOLVED**

- a) **To note the situation and the relevant risks in the context of the Council's budgets and its departments.**
- b) **To invite the Cabinet Member for the Environment and relevant officers from the Highways and Municipal Department to the next meeting of the Controls Improvement Working Group regarding the overspend in the field of waste.**

#### **5. CAPITAL PROGRAMME 2013/14 – END OF SECOND QUARTER REVIEW (SEPTEMBER 2013)**

Submitted – the report of the Head of Finance Department providing details of the revised programme and the relevant sources of finance.

The Cabinet Member for Resources reported that the report had been considered by the Cabinet on 26 November 2013 and submitted their decision for the attention of the committee -

“RESOLVED to accept the revised capital programme for 2013/14 – 2015/16 as submitted in part 1 of the report and to approve the relevant funding sources as outlined in part 2 of the report.”

It was noted that it was encouraging that the value of the capital programme for the current three years was over £121million, which was a substantial achievement in the current financial climate. There had been an increase of 3% in the expenditure level at the end of September this year compared with last year. It was noted that pressure was being placed on the departments to spend earlier in the year.

A member referred to the Safe Paths in the Community scheme – Ederm to Morfa Nefyn and noted that the work had commenced and he was grateful for the excellent and tidy work.

In response to a question regarding unsupported borrowing, the Head of Finance Department noted that in the past, the Council received an annual level from the Government for the amount of money that could be borrowed and repaid loans with fixed thresholds. By now, although there was a determined threshold, the process was more notional and the Council could exceed the threshold in accordance with the Prudential Code where a scheme was affordable or sustainable by repayment of monies by means of income or savings in the future.

**RESOLVED to note the situation and accept the Cabinet's decision.**

## **6. TREASURY MANAGEMENT 2013/14 – MID YEAR REVIEW**

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

He noted that the CIPFA Code of Practice on Treasury Management recommended that members should be informed of Treasury Management activity at least twice a year. This mid year report ensured that the Council was embracing best practice.

It was noted that a seminar would be held for members in January with the consultants from the Arlingclose Company, when there would be an opportunity to enquire about the strategy for 2014/15 and receive guidance on how the Council could receive more interest on its investments.

The Head of Finance Department noted that interest rates were low and that investments were being made for longer periods where appropriate in order to receive more interest but in several cases the investment period had been reduced as outlined in Appendix A. The Investment Manager added that the average interest receipts for the last six months, was 0.78% which underlined the seriousness of the situation.

It was noted that the Council was trying to make the best of its investments bearing in mind the current economic climate.

**RESOLVED to accept the report for information.**

## **7. SELF ASSESSMENT OF GOVERNANCE ARRANGEMENTS**

Submitted - the report of the Senior Manager - Audit and Risk. It was noted that that it had been highlighted in the presentation of the Wales Audit Office (WAO) in July to the Audit Committee that they were concerned that the Council's self assessment of its governance arrangements lacked corporate ownership and robust scrutiny and challenge.

It was reported that steps had been taken already to improve the governance arrangements and a Governance Arrangements Assessment Group had been established and had convened. It was noted that the members of the Group included the Corporate Director (Dilwyn Owen Williams), the Head of Democracy and Legal Department, the Senior Manager of the Corporate Commissioning Service, the Senior Manager – Delivery and Support and the Senior Manager – Audit and Risk.

It was noted that WAO was encouraging the Council to establish a rolling programme of reviews of the element within the governance framework.

It was reported that the Governance Group had decided that the first step would be to review the governance framework and that the Audit Committee should take a key role in the process.

The committee was informed that it was intended to hold a workshop with members of the Audit Committee in January to run through the core principles of good governance with facilitators present to assist and provide guidance.

The Senior Manager – Audit and Risk noted that there was an error in the English version of the report under paragraph 2.2 and the date of February should read 2014 rather than 2041.

**RESOLVED:**

- (i) to accept the report as an update on the development of the work programme of the Governance Arrangements Assessment Group;**
- (ii) to arrange a workshop during January 2014 in order to undertake a self assessment of the principles of good governance to be held in the Call Centre, Penrhyndeudraeth if possible.**

**8. REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP**

Submitted – the report of the Chairman of the Audit Committee regarding a meeting of the abovementioned working group held on 11 November 2013 to consider three audits that had received a category C opinion during the period between 1 July and 31 August 2013, namely -

- a) Health and Safety Risk Assessments
- b) Officers' Interests Policy
- c) Software Licences (Schools)

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

It was noted that assurance had been received in the working group that the issues highlighted by the Internal Audit Unit were receiving due attention and that steps were being taken.

With regard to the Software Licences (Schools) audit, a member noted that the working group had expressed its disappointment that only 21% of schools had responded to the request for information and it should be noted in future that a response was required.

In response to a question regarding Health and Safety Risk Assessments (Schools), the Senior Manager – Audit and Risk noted that the report was likely to appear before the committee in May.

A member noted that the working group facilitated collaboration and enabled messages to be transferred more effectively to the relevant officers.

**RESOLVED to accept the report.**

**9. OUTPUT OF THE INTERNAL AUDIT SECTION**

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

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

- 11 reports on audits of the operational plan with the relevant opinion category shown
- 1 other report (memoranda etc.)
- 4 grant reviews
- 2 follow-up audits

Further work which was being undertaken by the Internal Audit Section was reported upon which included 23 audits which were in progress.

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

### **Harbours**

A member enquired, following recent audits of vehicles for the use of red diesel by VOSA, whether the Council had received a fine and what was the situation with grass cutting machines in terms of the use of white or red diesel. In response, the Head of Finance Department noted that he would make enquiries and inform the member.

**RESOLVED to accept the reports on the Internal Audit Section's work for the period between 1 September and 31 October 2013 and to support the recommendations already submitted to the managers of the relevant services for implementation.**

**RESOLVED that the following members serve on the working group to consider the audits that received opinion category 'C' along with the overspend in the field of waste in the Highways and Municipal Department -  
The Chairman and Vice-chairman of the Committee along with Councillors John Brynmor Hughes, Michael Sol Owen, Gethin Glyn Williams, Bob Wright and Tom Ellis (if he is available).**

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

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

He provided details of the situation as at 15 November 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	34
Field work Started	19
Field Work Ended	3
Awaiting a Review	6
Draft Report Issued	3
Final Report	40
<b>Total</b>	<b>105</b>
Cancelled	6

It was reported that in order to achieve the quarterly target of 60% (i.e. 63 out of 105), there was a requirement to close or release a final report for a further 23 audits by 31 December 2013. It was noted that it was expected that 12 reports with the status of 'Field Work Ended', 'Awaiting a Review' and 'Draft Report Issued' would be completed by then and it was aimed to release 11 further audits before the end of the quarter to achieve the target.

Attention was drawn to modifications to the Internal Audit Plan which was mainly because of changes in the Council's arrangements.

In response to an enquiry regarding the increase in the number of days to complete the audits on Health and Safety Risk Assessments (Schools), the Senior Manager – Audit and Risk noted that 15 days had been added to the completion of the audit work programme because a request had been received to examine more schools in the sample than had originally been intended.

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

The meeting commenced at 10.30am and concluded at 11.55am.