
AUDIT COMMITTEE 24/9/15

Present: Councillor John Pughe Roberts (Chairman)

Councillors: Trevor Edwards, Tom Ellis, Aled Ll. Evans, E. Selwyn Griffiths, Sian Gwenllian, John B. Hughes, Aeron M. Jones, Charles Wyn Jones, W. Tudor Owen, Angela Russell, Gethin Glyn Williams, John Wyn Williams and Peredur Jenkins (Cabinet Member for Resources)

Lay Member: Mr John Pollard

Also in Attendance: Dafydd Edwards (Head of Finance Department), William E. Jones (Senior Finance Manager), Ffion Madog Evans (Finance Manager – Resources and Corporate), Caroline Lesley Roberts (Investment Manager – for Item 5 and 6 on the agenda), Dewi Morgan (Revenue and Risk Senior Manager), Luned Fôn Jones (Audit Manager), Amanda Hughes (Financial Audit Manager, Wales Audit Office), Derwyn Owen (Engagement Leader, Wales Audit Office) and Bethan Adams (Member Support and Scrutiny Officer).

Apologies: Councillors Dilwyn Morgan, Michael Sol Owen and Glyn Thomas.

1. TRIBUTE

The Chairman paid tribute to the late Councillor Robert J. Wright (Vice-chairman of the Committee).

The members stood as a mark of respect.

A tribute was also paid to Councillor Eddie Dogan, a former member of this committee.

2. WELCOME

Councillors E. Selwyn Griffiths, Sian Gwenllian and W. Tudor Owen, who were attending their first meeting of this Committee, were welcomed.

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 16 July 2015, as a true record.

5. FINAL ACCOUNTS 2014/15

i) Statement of the Accounts

The Head of Finance Department submitted the revised statutory financial statements for approval by the committee. He noted that Appendix 3 in the reports that followed by the Wales Audit Office (WAO) noted the main changes in the accounts since the pre-audit version had been submitted to the Committee meeting of 16 July.

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

a) The Council's Accounts

In accordance with the Annual Audit procedure, namely the Appointed Auditor's report for those charged with governance, the report of the WAO was submitted. The Engagement Leader and Local Manager, WAO, were present to submit the information.

It was noted that WAO was responsible for undertaking an audit on behalf of the Auditor General and for reporting whether it was of the view that the reports presented the financial position of the Council accurately and fairly at the end of every year. It was reported that the Appointed Auditor intended to issue an unqualified audit report on Gwynedd Council's accounts for 2014/15.

The WAO representatives noted the following main points:

- That there would be a delay before the accounts were certified as a member of the public had expressed an objection to the accounts relating to the expenditure of the Trunk Road Agency. Consequently, WAO could not formally conclude its audit responsibilities or issue the certificate of audit closure until the matter had been addressed.
- In the context of misstatements not corrected, WAO had identified an overstatement of £825,000 in the provisions, namely:
 - A provision of £490,000 to cover the future loss of Council tax as a result of householders with properties that were not fully occupied throughout the year transferring over to the National Non-Domestic Rate.
 - A provision of £335,000 to contribute towards the existing pension deficit.
 Whilst there was a past obligation in relation to these costs, it was not appropriate to have a provision in the accounts as the liability was already reflected in the accounts through the International Accounting Standard 19 – Employee Benefits (IAS19) entries.
- Although it was appreciated that it was prudent to set aside these funds in budgetary terms, they did not comply with the definition of 'provisions' from a technical accounting perspective and it would be more appropriate for these sums to be set aside in earmarked reserves.

In response to the above observations, the Head of Finance Department noted the following:

- That he was not of the opinion that the objection made by a member of the public was directly related to the accounts for 2014/15.
- In relation to the overstatements, these were two technical accounting matters. Two funds had been set aside prudently; however, the auditor suggested that they should not be treated as provisions. It was noted that there were grounds to consider the money set aside as either provisions or as funds; however, the procedure would be re-considered by 2015/16.

In response to a member's observations regarding the provision relating to Council Tax, the Head of Finance Department confirmed that a Scrutiny Investigation was in the pipeline on the subject of Holiday Homes and Taxes.

In response to a member's question, it was noted that the accounting method of presumptions and the historical pension deficit had changed, with a specific sum rather than a percentage of salary given as a contribution. It was reported that the number of jobs had not reduced as much as had been anticipated in 2014-15, and thus there had been more money allocated; however, due to the financial climate a reduction was anticipated in the number of jobs in the subsequent years, therefore it was prudent to set aside the relevant provision.

b) Gwynedd Pension Fund Accounts

The Local Manager for the 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 2015.

It was noted that WAO was responsible for undertaking an audit and for reporting whether it was of the view that the reports presented accurately and fairly the financial position of the Pension Fund at the end of the year.

She notified the Committee that the Appointed Auditor intended to issue an unqualified audit opinion on the accounts of the Gwynedd Pension Fund for 2014/15.

The following main points were made by the Local Manager for the Wales Audit Office:

- In the context of uncorrected misstatements, that WAO had identified that death benefits and other lump sums had been understated by £119,000 with two payments relating to the 2014/15 financial year having been accounted for in 2015/16. She added that it was a minor issue; however, it was WAO's duty to draw attention to the matter.
- That the Pension Fund had not updated its Written Statement of Investment Principles (SIP) in accordance with the three-yearly timetable.
- Although the Council's accounts and the Pension Fund accounts were dealt with in separate reports, only one certificate would be issued. She noted that the Auditor General could not release the certificate until enquiries arising from an objection raised by a member of the public had been formally completed.

In response to the above observations, the Head of Finance Department noted the following:

- That the understatement was a relatively small amount considering the £1,400,000,000 value of the Pension Fund; therefore, it was not considered that this needed to be corrected.
- The Pensions Committee would review the Statement of Investment Principles and a consultation would be undertaken in 2015/16.

The Engagement Leader, Wales Audit Office expressed his gratitude for the many years of collaboration in terms of auditing the accounts considering that WAO's responsibility for auditing them was coming to an end. He added that the quality of the accounts had facilitated the audits over the years.

The Chairman and Head of Finance Department expressed their appreciation of the WAO auditors' work over the years.

It was explained that the Auditor General had decided to allocate the work of auditing the accounts to Deloitte. It was noted that the Council had no technical objection to the change but that it had emphasised to the Auditor General that the company would have to cope with the fact that Welsh was the internal administration language of the Council.

A member noted that a letter should be sent to the Auditor General to express gratitude for the work and cooperation of WAO officers over the years in relation to auditing the accounts.

RESOLVED:

- (i) 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 Chairman of the Committee to sign the**

letters of representation and to submit them to the Appointed Auditor of the Wales Audit Office.

- (ii) that a letter should be sent to the Auditor General to express gratitude for the work and cooperation of WAO officers over the years in relation to auditing the accounts.**

6. TREASURY MANAGEMENT 2015/16 – MID YEAR REVIEW

The report of the Head of Finance Department was submitted on treasury management activity during the current financial year.

The Investment Manager confirmed that during the five months between 1 April and 31 August 2015, the Council's borrowing activity had remained within the restrictions originally placed and there were no banks where the Council had deposited money that failed to repay.

It was reported that 98% of the Council's investment in Heritable Bank had been reclaimed, with only £80,376 remaining unpaid, and that it was likely that a further apportionment would be received.

RESOLVED to accept the report for information.

7. REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP

Submitted – the report of the Chairman of the Audit Committee regarding a meeting of the above-mentioned working group held on 20 August 2015 to consider seven audits that had received a category C opinion during the period between 1 February 2015 and 30 June 2015, namely -

- a) IT Backups and Service Continuity Arrangements
- b) Health and Safety - Lone Working
- c) First Aid Payments
- ch) Jobs System
- d) Travelling Costs of Community Care Workers
- dd) Children Services - Commissioning Care
- e) Gwynedd Museum and Gallery Development Plan

It was noted that consideration had also been given to the 'Parking Enforcement' audit that had received opinion category B, as well as a matter raised by a member at the Committee's meeting on 16 July in connection with the Rhyd Ddu Outdoor Centre Leasing Arrangements to Antur Nantlle Cyf.

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

It was noted that assurance had been received from the Working Group that the issues highlighted by the Internal Audit Section were receiving due attention and that steps were being taken.

A member noted that it had not been possible for him to attend the Working Group meeting for the discussion on the Rhyd Ddu Outdoor Centre Leasing Arrangements to Antur Nantlle Cyf. as he had been away on holiday.

In response to a member's observation regarding risk assessments, the Audit Manager noted that Internal Audit had checked the Departments' risk assessments last year, as well as confirm that the Health and Safety Service checked the Departments' risk assessments.

Enquiries were made regarding the financial obligations for the Council in connection with the Community Care Staff Travelling Costs audit, following a European decision whereby the working time of community care staff commenced when they left their home. It was noted that the matter was being addressed by the Human Resources Service.

In response to a member's question in terms of monitoring the Services' progress on the recommendations, the Audit Manager noted that follow-up audits had been planned.

RESOLVED to accept the report.

8. OUTPUT OF THE INTERNAL AUDIT SECTION

The work of the Internal Audit Section for the period up to 11 September 2015

The report of the Audit Manager was submitted, outlining the work of the Internal Audit Section for the period between 1 July and 11 September 2015. It was noted that there had been eight reports regarding audits from the operational plan with the appropriate opinion categories shown completed during the period, as well as two follow-up audits.

Consideration was given to all the reports individually.

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

Chairman's Fund

In response to a member's enquiry, it was explained that the "fund" in fact was an annual budget.

Main Accounting System – A Review of Key Controls

A member drew attention to an issue highlighted in the Employment Appeals Committee on 18 September 2015 in terms of one Department's use of another's Department's expenditure codes. In response, it was noted that it was not uncommon for an individual to be employed in more than one Department and that there was a duty on managers to verify the information. The member noted that she would discuss the matter with the officers at the end of the meeting.

RESOLVED:

- (a) to accept the reports on the work of the Internal Audit Section for the period 1 July 2015 to 11 September 2015 and to support the recommendations that have already been submitted to the managers of the relevant services for implementation.**
- (b) that the Chairman of the committee, along with Councillors Tom Ellis, John B. Hughes and Angela Russell serve on the Working Group to consider the audits that have received opinion category 'C'.**
- (c) that it is the responsibility of any member who is unable to be present in the Working Group to arrange a substitute.**

9. INTERNAL AUDIT PLAN 2015/16

The report of the Senior Audit and Risk Manager was submitted, providing an update on the current situation in terms of completing the 2015/16 internal audit plan.

It was reported that the Internal Audit Unit had surpassed the target of quarter 2, with 23.81% of the planned audits released in final draft, compared to a target of 20% by the end of the quarter.

RESOLVED to note the contents of the report as an update of progress against the 2015/16 audit plan.

The meeting commenced at 10.30pm and concluded at 11.40pm.

CHAIRMAN