

AUDIT COMMITTEE

Minutes of the meeting held on 23 July 2013

- PRESENT:** Councillor Robert Llewelyn Jones (Chair)
Councillor Trefor Lloyd Hughes (Vice-Chair)
- Councillors Jim Evans, John Griffith and Dafydd Rhys Thomas
- Lay Members: Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Head of Function (Resources) and Section 151 Officer
Audit Manager (JF)
Accountancy Manager (TF)
Head of Service (ET)
Insurance and Risk Manager (JJ) (for item 10)
Corporate Information Officer (HP) (for item 11)
Programme and Business Planning Manager (GM)
Committee Officer (ATH)
- APOLOGIES:** Councillors Vaughan Hughes and P S Rogers
- ALSO PRESENT:** Mr Barry Williams (Accountant), Mr Patrick Green (RSM Tenon), Mrs Lynn Pamment (PwC), Mr Ian Davies (PwC), Mr Andy Bruce (WAO)
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1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES OF THE 5TH FEBRUARY, 2013 MEETING

The minutes of the previous meeting of the Audit Committee held on 5th February, 2013 were presented and confirmed as correct.

Arising thereon –

- With reference to the requested feedback by the Head of Service (Housing) regarding progress in addressing governance issues in relation to the Building Maintenance Unit, the Audit Manager informed the Committee that the head of Service (Housing) had confirmed that many of the issues that had arisen are being addressed via the Transformation Programme but notwithstanding she would be happy to attend the September meeting of the Audit Committee to provide Members with an update.

It was agreed that the update on progress in addressing governance issues with regard to the BMU be deferred to the Committee's September meeting.

Action Arising: Audit Manager to confirm with the Head of Service (Housing) the arrangements for reporting back to the 24 September meeting of the Audit Committee.

3 STATEMENT OF ACCOUNTS 2012/13 - MAJOR JUDGEMENTS AND ESTIMATES

A report by the Head of Function (Resources) setting out the key judgements and estimates in the 2012/13 Statement of Accounts was presented for the Committee's consideration and comment.

The Accountancy Manager confirmed that the Council's 2012/13 Draft Statement of Accounts was signed by the Section 151 Officer on 28th June, 2013 within the end of June statutory deadline and was published on the Council's website at the beginning of July. The formal audit of the accounting statements has now commenced. The Officer proceeded to say that the accounts which cover the period from 1 April, 2012 to 31 March, 2013 are large and complicated statements and are prepared at a point in time and as such, judgements need to be made in applying accounting policies and assumptions made about future and other major sources of estimation uncertainty.

The Officer explained that the purpose of the report is to provide greater clarity on those judgments and that the report should be read in conjunction with the full Statement of Accounts. The report provides Members of the Committee with an opportunity to ask questions on areas highlighted for consideration in preparation for the formal presentation of the accounts and the Appointed Auditor's Audit of Financial Statements Report to the Committee's September meeting. The Accountancy Manager referred to the following as some of the key areas and aspects for the Committee's focus –

- The explanatory foreword which links the out-turn back to the budget for the year and the in year monitoring
- The movement in reserves statement which summarises the reserves available to the Council, divided into usable and unusable categories and the movements on them during the year
- Provisions which cover the sums of money set aside for known and probable events
- Judgemental decisions and estimation uncertainties. These are summarised and explained at Notes 3 and 4 of the Statement of accounts and are reproduced as Appendices C and CH to the report.

Members considered the report and in the ensuing full discussion of the information presented they sought further explanation and clarification of the following matters –

- The obligations to the Council in meeting its liabilities under Municipal's Mutual Insurance's Scheme of Arrangement with its creditors, the extent of its liabilities in this respect and the timescale.
- Whether the reserve created by landfill cost savings as a result of diverting waste to recycling might be available for use other than in connection with recycling initiatives.
- The position with regard to Council Fund Services and the reasons, impact and implications of over or underspending on specific services.
- Whether year end savings achieved in Education and Social Services budgets were fortuitous or due to a planned long-term strategy.
- The position with regard to the pension fund and the £18.4m increase in the net pension liability during 2012/13 from £63.7m to £83.1m and the implications thereof. Members were of the view that it would be helpful to them to better understand the sometimes significant year on year movements in the net pension liability figure and the reasons for these variances were they to receive a presentation by a representative of the Gwynedd Local Government Pension Fund.
- The position with regard to school balances and specifically those schools in a position of deficit and the actions planned to address the situation. The importance of having in place a system of alerts to highlight potential problems early was emphasised as well as learning from experience and putting in place preventative measures/controls to seek to ensure that schools do not enter a situation of negative balance in the first place and that the situation of those in negative balance does not deteriorate.
- A reported significant slippage in spending on the 3 Towns scheme and the reasons for that slippage. A request was made for Members of the Committee to be provided with an analysis of the grant funding for this regeneration scheme.
- The rationale for carrying a balance of £2m in the Insurance Fund when claims against the fund are low and when it could be better used elsewhere. It was suggested that as the value of meeting a potential liability might well exceed £2m thereby encroaching on general reserves, the sum could just as well be retained in general reserves in the first place.
- A request was made for further information to be provided to the Committee's September meeting regarding the plans to manage the larger budgets and the services in which savings

are likely or are projected to be realised so that Members can link the budget, overspend and service response. It was pointed out that as the Audit Committee has a responsibility not only to scrutinise results but also to consider the impact of changes in expenditure, it requires contextual information in relation to risk assessment – particularly with regard to sensitive areas - and the possible consequence of shifts in spending,

The Officers responded to the specific points of inquiry raised by providing further information for the Members. The Head of Function (Resources) confirmed that all elements of revenue expenditure will be scrutinised over the coming months and that as part of the budget setting process options will be considered with the Executive and Council and budget management/savings plans will be shared with members in a planned workshop. As part of the process of identifying savings services will be asked to clarify the impact on delivery. The Accountancy Manager commented with regard to the provisional revenue outturn for 2012/13 that the turnaround in the position between the third and fourth quarters and the savings achieved have to be considered in terms of what they mean in relation to the Council's underlying financial position in strengthening that position as regards providing the Council with more options than at first projected and the opportunity to consider alternatives.

It was resolved to accept the report and to note the key items highlighted along with the points of discussion arising.

ACTIONS ARISING:

- **Head of Function (Resources) to invite a representative of the Gwynedd Local Government Pension Fund along with Councillor H.Eifion Jones as this Authority's representative on the Fund Committee to address the next meeting of the Audit Committee on the performance of the Pension Fund and any issues arising therefrom.**
- **Head of Function (Resources) to provide Members of the Committee with an analysis of the grant funding for the 3 Towns Regeneration Scheme.**

4 DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13

A report by the Deputy Chief Executive incorporating the draft Annual Governance Statement (AGS) for the 2012/13 financial year was presented for the Committee's consideration and comment along with a Governance Action Plan for 2013/14 which set out the principal governance issues requiring attention in the coming year. The Committee was informed that the current draft of the AGS as presented is still at consultation and challenge stage and will go on to Officers and Members for comment before a definitive version is brought back to the Audit Committee for approval at its September meeting.

Taking into consideration observations made by Mr Andy Bruce regarding the WAO's evaluation of the Authority's AGS (refer to item 5) the Head of Service proceeded to provide the Members a visual presentation which highlighted some of the challenges in formulating the 2012/13 AGS as the Authority emerged from a period of intervention in terms of managing the changes and addressing issues in the way of an existing fragmentary governance framework parts of which may have been developed several times over the course of intervention meaning that they are not necessarily linked to the Council's vision; multiple viewpoints; the lack of a system to evaluate effectiveness and time limitations. Consequently recommendations have been formulated not only with regard to strengthening the Authority's corporate governance but also with regard to improving working practices in terms of collating information, broadening the governance framework and streamlining self-assessments. An officer workgroup has been established to facilitate this process. The Head of Service referred to the expectations on the Audit Committee in relation to its oversight responsibilities and its duty to obtain assurance regarding the robustness of the Authority's Governance framework and arrangements and to monitor progress against the Governance Action Plan.

Members were given the opportunity to question the officer on the contents of the AGS and whether its description of the governance arrangements provides sufficient and accurate coverage of those arrangements and whether in its conclusions on significant governance issues it strikes the key notes. Members raised certain points of clarification on the Statement and whilst they accepted the AGS as a reflection of the governance arrangements in place at the time they noted that it could be more specific in places particularly in terms of monitoring performance and in terms of setting out targets that are clearly defined and which thus demonstrate a resoluteness to improve on the previous year's performance. Members were also keen to know whether the Action Plan would be translated into specific timescales and outputs on the basis that it would be easier for the Audit Committee to monitor progress if it knew what the projected outcomes are and the timeframe for their achievement.

It was resolved to note the draft Annual Governance Statement for 2012/13 along with the comments made in respect of better defining targets within the Statement.

ACTION ARISING: Deputy Chief Executive to provide the Audit Committee with regular updates on the Governance Action Plan.

5 EXTERNAL AUDIT REVIEW OF LOCAL GOVERNANCE 2013

The External Audit report in respect of the Local Authority's Review of Governance was presented for the Committee's information. The report set out the scope of the WAO study, the overall conclusion along with a more detailed evaluation of the range, robustness and thoroughness of the Authority's review of governance and its recognition of areas in need of improvement and plans for addressing them.

Mr Andy Bruce, WAO informed the Committee that the External Audit study had concluded that whilst the Council's review of governance is developing and is based on firm principles, the arrangements need to be broadened to provide further assurance on the Council's vision and outcomes for the public. The Council's review of governance arrangements provides a level of assurance but there is scope to evaluate the effectiveness of its controls. The Officer said that most significantly, the Council has identified important issues from its governance arrangements and is taking positive steps to improve its arrangements. The results from all Council reviews of governance will be collated and then developed into a national report identifying common trends and themes.

It was resolved to note the WAO report on the Authority's review of governance and to thank the Officer for the feedback.

NO FURTHER ACTION ARISING

6 EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE

The WAO update on the status of current and planned work (both national and Anglesey specific) under the Performance Work Programme was presented and noted for information purposes.

NO FURTHER ACTION ARISING

7 EXTERNAL AUDIT - PROGRESS ON FINANCIAL AUDIT

The External Audit financial audit progress report was presented for the Committee's information.

Mrs Lynn Pamment, Engagement Partner PwC informed Members that the purpose of the report is to provide management and the Audit Committee with an update on the financial audit's progress against the final key milestones set out in the 2012/13 Financial Audit Outline and in respect of grant certification work.

The Officer referred to the following aspects of the financial audit position statement with progress to date -

- The schedule and status of the financial audit work around the audit of the 2012/13 Statement of Accounts leading to the delivery of the Audit opinion and completion certificate.
- The position with regard to the completion of the 2011/12 Statement of Accounts following the receipt of a number of objections to the accounts by a local elector which required further information and investigation. The outstanding issues with regard to this matter have now been concluded. Prior to issuing a completion certificate, certain significant estimates in the accounts were revisited in order to obtain assurance that in light of any subsequent events or information the estimates were not materially misstated. The Officer confirmed that the completion certificate had now been issued by the Appointed Auditor.
- All 2011/12 grant claims have now been certified with the exception of the Housing Benefit grant which is in its final technical review phase.
- With regard to 2012/13 grant claims fieldwork has commenced on the Communities First and Housing Benefit claims.

It was resolved to accept the report and to note its contents.

NO FURTHER ACTION ARISING

8 EXTERNAL AUDIT - ANNUAL FINANCIAL AUDIT OUTLINE

The Annual Financial Audit Outline for the 2012/13 audit year was re-presented for the Committee's information. The report set out the approach to the audit of the financial statements; the main operational and financial risks faced by the Authority which could affect the audit; the role of External Audit in evaluating the Authority's arrangement for securing economy efficiency and effectiveness in the use of resources along with the proposed audit fee.

The Chair referred to recruitment as a risk area with regard to accounts preparation in terms of filling positions permanently in the Finance team and he suggested that perhaps the Audit Committee has a role in promoting the Finance Service as a career pathway with the local secondary school population and in encouraging apprenticeships in Finance.

It was resolved to accept the report for information purposes.

NO FURTHER ACTION ARISING.

9 EXTERNAL AUDIT - CERTIFICATION OF GRANTS AND RETURNS 2011/12

The External Audit report in respect of the certification of grants and returns for the 2011/12 financial year was presented for the Committee's information. The report provided a summary of the number of grant claims and financial returns certified and the total value thereof; information about the number of unqualified claims as well as those claims requiring qualification or amendment and the reasons for the qualification/ amendment. Whilst the Authority was judged to have generally improved the arrangements in place for the production and submission of its 2011/12 grant claims, the auditor concluded that there is room for improvement and the report contains a total of 8 recommendations for the Authority to further improve performance in managing grant schemes and their associated claims. A detailed analysis of the grants certified, a schedule of amendments and qualifications, a table of recommendations and a synopsis of work remaining were provided at appendices 1 to 4 to the report.

Members considered the report and it was pointed out that some of the recommendations appear elementary and cover procedures which one would expect are carried out as a matter of course in managing and compiling grant claims. Mrs Lynn Pamment, Engagement Partner, PwC said that some of the areas noted as requiring improvement are common to other authorities as well, for example evidencing staff costs and providing supporting documentation for re-charges.

It was resolved to accept the report and to note its contents.

NO FURTHER ACTION ARISING.

10 RISK MANAGEMENT AND INSURANCE

A report by the Head of Function (Resources) on progress on implementing the Risk Management Framework along with a revised version of the Corporate Risk Register and an update on Insurance Claims was presented for the Committee's consideration.

The Head of Function (Resources) informed the Members that the report outlines the position with regard to embedding risk management arrangements across the Authority. Those arrangements continue to embed and it is recognised also that there are certain risks which require further officer clarification.

The Risk and Insurance Manager said that the Performance Review Group reviewed the Service Risk Registers and the Corporate Risk register on 2nd July, 2013. The Group's recommendations have been incorporated in the revised version of the Corporate Risk Register including its identification of the top four risks to the Council as outlined in the report. The Officer proceeded to refer to the Council's Insurance claims experience for the period from 1 April, 2007 to 31st March 2013 which is notable for the 40% increase in public liability claims received during 2012/13 and which is attributable to claims for damage to vehicles due to the condition of the Council's roads.

Members considered the report and they highlighted the following matters as points of discussion –

- The overstatement of reputational damage as a risk remains a feature of the revised Corporate Risk Register especially as its identification in relation to certain areas appears random and unnecessary and draws attention to what is a historical issue.
- That the Corporate Risk register appears overly busy which it was felt does not assist the Committee in its function of overseeing risk management within the Authority. It was pointed out that it was reported to the Committee in December 2012 that the Risk Register would be streamlined to provide coverage of the ten principal risk areas.
- A lack of information regarding expected outcomes with regard to managing the risk areas meaning that the register is input rather than output loaded.
- The reasons for the change in the top risks in the period since the previous update to the Audit Committee at its February, 2013 meeting. It was pointed out that whilst three of the five top level risks reported in February had fallen out of that category, there were now two new entries within the top four with no commentary to explain why.

The Insurance and Risk Manager explained that the Performance Review Group continues to consider reputational damage as a risk in several areas but will keep the position under review. The Senior Leadership Team did review the register and decided to retain the full register format rather than a streamlined version.

The Head of Function (Resources) said that the Corporate Risk Register in its current format is under development and it is recognised that it does not reflect outcomes and details about removing/mitigating risks. Over the coming months the register will be further developed to include information from the relevant officers. The Officer confirmed that the Performance Review Group has and does review the register and that there have been movements in and out but that she would from now on report those changes to the Audit Committee and why they have happened.

It was resolved to accept the report and accompanying Corporate Risk Register and note their contents.

ACTION ARISING: Head of Function (Resources) to report movements of risks within, and in and out of the Corporate Risk Register and reasons therefore to the Audit Committee.

11 INFORMATION MANAGEMENT AND DATA SECURITY

A report by the Audit Manager on current developments in relation to Information Management and data security with particular reference to an audit of the Council's arrangements for the processing of

personal data carried out by the Information Commissioner's auditors during July, 2013 was presented for the Committee's consideration.

The Corporate Information Officer provided Members with a summary of the legislative background to information management and data security including the powers of the Information Commissioner and the financial penalties which can be imposed in cases of a breach of the Data Protection Act 1998. The Officer reported that significant control weaknesses with regard to the Council's arrangements for information management, information governance and data security have been identified in a number of regulatory reports and the Annual Improvement report this year also highlighted this area as a limiting factor in the Council's ability to improve. The Audit Committee has been kept informed of progress made in addressing these issues. Following breaches of the Data Protection Act 1998 by the Council, formal undertakings were made by the Council under the Act with the Information Commissioner Officer in January 2011 and January 2012. As a result, the Council agreed to the IC's Office undertaking a consensual audit of the Council's arrangements for processing personal data. The fieldwork for the audit was carried out in the first week of July. The resultant report of the ICO's auditors is likely to re-iterate and possibly add to the recommendations made in previous regulatory reports. However, the Council's readiness to report to the Information Commissioner on these matters along with its reporting systems allowing for the prompt review of such occurrences and identification of appropriate steps to reduce the risk have been recognised by the IC's Office. The Officer informed the Committee that a project on information governance was initiated in anticipation of the Information Commissioner's then forthcoming audit covering the specific areas noted in the report and the project's work programme will include progressing the action plan that is expected for the Information Commissioner's consensual audit.

Members considered the report and were keen to obtain assurance that the necessary resources are available to address the matters that have been identified as requiring attention and to allow for that process to be completed speedily. Given that non-compliance with data protection has been highlighted as one of the Council's top risks the assumption is that significant funding will be allocated to this area. Members emphasised that having been prioritised, action on information management matters needs to be taken quickly and assurance given that the resources are in place and a timetable has been set that is expeditious. The Committee requested a further update at its September meeting.

The Audit Manager said that the Information Commissioner's final report is expected to be issued in September and that the Senior Leadership Team will determine the level of resources required and available for addressing the recommendations arising therefrom. It was suggested that the Information Commissioner's auditors be invited to address the September meeting of the Audit Committee on their perspective on the information management arrangements within the Council along with a representative of the SLT to provide a response to the report.

It was resolved to accept the report and to note its contents.

ACTION ARISING: Corporate Information Officer to invite the Information Commissioner's auditors to the September meeting of the Audit Committee along with a representative of the SLT to provide a response to the IC's report.

12 INTERNAL AUDIT - ANNUAL REPORT 2012/13

The Internal Audit Annual report for 2012/13 was presented for the Committee's information. The report provided a synopsis of the audit activity during the 2012/13 financial year including outputs in the form of audit reviews carried out; performance against internal targets, the overall audit conclusion on the areas audited and the level of risk to the Authority which that reflects as well specific areas which require further attention.

The Audit Manager highlighted the key points by way of a visual presentation as follows –

- In all 60 reviews (final and draft/nearing draft) were carried out during 2011/12 compared to 61 the previous year. The 60 reviews include thirteen unplanned final reports issued in 2012/13 which were undertaken for risk and/or compliance purposes or as the result of work relating to referrals.

- 81% of the 2012/13 audit plan was completed to draft in the year against a target of 90%
- The 53% of High and Medium recommendations implemented is below the target of 80%; however the percentage of High recommendations implemented is greater at 74%. Internal Audit will carry out a review of outstanding recommendations and will again be working with services in 2013/14 to update the 4action system with the latest implementation data which it is hoped will show an improvement against target.
- The overall grades for both systems and schools review of a Green/Amber audit opinion translates to a low risk to the Authority based on the scope of the work carried out, the action recommended to management being implemented, and those systems continuing to operate as intended.
- Areas where significant weaknesses in control would prevent the Council placing reliance on the systems of internal control in respect of those systems reviewed during the year are noted below –
 - Business Continuity
 - Risk Management
 - Governance
 - Information Management

It was resolved to accept the Internal Audit Annual Report for 2012/13 and to note its contents.

NO FURTHER ACTION ARISING

13 INTERNAL AUDIT - IA STRATEGY AND PERIODIC PLAN 2012/15

The Internal Audit Strategic Plan for 2012/2015 and Periodic Plan for 2013/14 were presented for the Committee's consideration and comment.

The Audit Manager highlighted the key points by way of a visual presentation as follows –

- The audit approach is risk based and in order to identify the areas that require internal audit coverage, the risks facing the organisation need to be understood. A revised needs assessment has been undertaken for 2013/14 to 2014/15 using the processes and criteria set out under section 2 of the Plan.
- The Internal Audit Operational Plan outlines the internal audit coverage for the financial year and is documented under Appendix A to the report. The Plan is based on the Audit Needs Assessment and on the resources available to Internal Audit in the period.
- An analysis of the available resources in the Internal Audit service for 2013/14 (a total of 1444 days) is provided in Appendix B to the report. Based on these available resources and taking into account non chargeable days in relation to annual and sick leave, training, administration and committee work which activities are not directly involved with audit reviews, as well as days set aside for non-programmed work, the total number of internal audit days available for programmed internal audit work against the 2013/14 plan is therefore 686 days.

Members considered the report and questioned the officers on the adequacy of the resources available to internal audit to carry out the programmed work taking into consideration also the likelihood of the receipt of requests for reviews in areas not planned for. The process for funding reviews specifically requested by services as well as the possibility of bringing in additional resources to undertake non-programmed work was discussed.

In response to Members' enquiries about the adequacy of the resources to allow Internal Audit to undertake and fulfil what the service has planned for 2013/14, the Audit Manager said that the flexibility of reviews will be discussed with individual services. The Officer added that he was satisfied that Internal Audit can carry out 56 reviews with the current staff, and that he was of the view that the level of resources as at present is appropriate to be able to give assurance to management.

It was resolved to accept the IA Strategic Plan for 2012/15 and IA Operational Plan for 2013/14.

**14 NO FURTHER ACTION ARISING
INTERNAL AUDIT - PROGRESS REPORT QUARTER 1 2013/14**

A progress report on the work of Internal Audit for the first quarter of 2013/14 was presented for the Committee's consideration.

The Audit Manager highlighted the key points by way of a visual presentation as follows:

- Table 1 of the report shows the status of the reviews currently in progress and/or having been completed to final report in the period along with the overall audit opinion
- The main findings from the reports issued are set out in section 2 of the report.
- No Red Assurance audit reviews were issued. However the advisory review in relation to the Partnership Framework did identify gaps in arrangements particularly the absence of a formal Partnership Governance framework which is considered a significant risk.
- The percentage of the Audit Plan completed stands at 50% for the first quarter. This is expected due to the quarter commencing with the completion and issuing of eight final reports relating to the previous financial year and not included in the percentage target figure.
- The percentage of High and Medium categorised recommendations implemented is below target at 51%. Internal Audit has reviewed the reporting lines for implementation of recommendations and will be reporting back to the next Audit Committee on the results of this work. The intention is to raise the profile of recommendation implementation amongst senior managers and thus improve implementation rates.

It was resolved to accept the report and to note its contents.

NO FURTHER ACTION ARISING

15 ANNUAL TREASURY MANAGEMENT REVIEW 2012/13

The Annual Treasury Management Review report for 2012/13 was presented for the Committee's consideration.

The Accountancy Manager informed the Committee that treasury management activities in 2012/13 were in line with the strategy agreed on 5th March, 2012 in advance of the 2012/13 financial year. The strategy has operated successfully and the report sets out the results of that strategy in the form of borrowing and investment performance during the year. The report also makes reference to capital activity, the actual prudential and treasury indicators; interest rate movements, and detailed debt activity. The Officer elaborated on the Council's net borrowing position and its approach to borrowing which was undertaken for capital purposes only. The borrowing activity is constrained by prudential indicators for net borrowing and the CFR (Council's underlying borrowing need) and by the authorised limits. The 2012/13 financial year continued the challenging investment environment of previous years in the form of low investment returns and continued heightened counterparty risks. It was confirmed that no institutions in which the Authority had made investments had any difficulty in repaying investments and interest on time and in full during the year.

Members considered the report and they indicated that they would wish to see a continuation of a risk averse approach to investment.

It was resolved to accept the Treasury Management Review Report for 2012/13 and to forward it to the County Council.

NO FURTHER ACTION ARISING

16 AUDIT COMMITTEE DATES OF MEETINGS FOR 2013/14

The Audit Committee's dates of meetings for 2013/14 were presented and noted for information purposes.

Councillor R.Llewelyn Jones
Chair