

AUDIT COMMITTEE

Minutes of the meeting held on 24 September 2013

- PRESENT:** Councillor Robert Llewelyn Jones (Chair)
Councillor Trefor Lloyd Hughes (Vice-Chair)
- Councillors John Griffith, P S Rogers and Dafydd Rhys Thomas, P.S.Rogers
- Lay Members: Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Head of Function (Resources) and Section 151 Officer
Deputy Chief Executive
Audit Manager (JF)
Senior Auditor (EW)
Insurance and Risk Manager (JJ) (for item 6)
Group Accountant (SM)
Accountant – Capital & Treasury Management (BD)
Accountancy Assistant (GR)
Committee Officer (ATH)
- APOLOGIES:** Councillor Raymond Jones
- ALSO PRESENT:** Councillor H.Eifion Jones (Portfolio Member for Finance), Mr Dilwyn Williams (Strategic Director – Gwynedd Council) (for item 3), Lyn Pammem (PwC), Andy Bruce (WAO)
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1 DECLARATION OF INTEREST

The following noted an interest in relation to item 3 on the agenda –

Councillor Trefor Lloyd Hughes on the basis of his wife's membership of the local government pension scheme. Councillor Hughes said that he had sought legal advice on the matter and whilst he would participate in the discussion he had decided that he would not vote with regard to any resolution that may arise thereon.

Councillor H.Eifion Jones on the basis that he was a Member of the Pension Fund.

Councillor John Griffith on the basis that he was a member of the LG Pension Fund by virtue of his previous profession.

Mrs Sharon Warnes on the basis that she was in receipt of a Local Government Pension.

The Chair commented that Elected Members have been eligible to join the Local Government Pension Scheme since a few years and that the legal advice was that they could take part in the discussion on item 3.

2 MINUTES OF THE 23RD JULY, 2013 MEETING

The minutes of the previous meeting of the Audit Committee held on 23 July, 2013 were presented and confirmed as correct.

Arising thereon –

- The Committee was informed and subsequently agreed that the Head of Service (Housing) present her update on progress with governance matters in relation to the Building Maintenance Unit to the next scheduled meeting of the Audit Committee in December, 2013.
- With reference to the report by the Information Commissioner on the outcome of the audit of the Council's arrangements for processing personal data undertaken in July, the Audit Manager informed the Committee that the definitive version of the report had not been produced in time for this meeting and he suggested that an invitation be extended to the Information Commissioner's Auditors to attend the December, 2013 meeting of the Audit Committee to present their findings which would also allow the Authority to formulate a considered response to any recommendations arising from the final report. The Officer also informed Members that a Project Board with regard to Information Governance has been established and convened with the outcome that an action plan based on the Information Commissioner's draft report has been drawn up. Work therefore has commenced on this matter and is progressing. Members noted the position.

ACTIONS ARISING –

- **Audit Manager to confirm with the Head of Service (Housing) her attendance at the 11 December, 2013 meeting of the Audit Committee to update the Committee on progress on governance issues in relation to the BMU.**
- **Audit Manager to liaise with the Corporate Information Officer with regard to making arrangements for the auditors from the Information Commissioner's Office to attend the December, 2013 meeting of the Audit Committee to provide feedback on the audit of the Council's arrangements for processing personal data.**

3 GWYNEDD LOCAL GOVERNMENT PENSION FUND

The Chair welcomed Mr Dilwyn Williams Corporate Director with Gwynedd Council to the meeting and he invited him to address the Audit Committee on the position with regard to the Pension Fund and specifically, the £18.4m increase during 2012/13 in the net pension liability from £63.7m to £83.1m and the implications thereof.

In his presentation to the Committee, the Strategic Director explained the mechanics of the Local Government Pension Fund system and how it works, and he highlighted the key considerations and factors in approaching issues in relation to the performance of the Pension Fund.

There followed a question and answer session in which Members of the Committee were given the opportunity to raise queries and/or points of clarification on the information provided by the Corporate Director. The following is a summary of the issues raised:

- The performance of the pension fund against the benchmark and compared to other local authorities. Questions were asked regarding the low position of the fund in terms of its performance in recent years relative to that of other authorities and the reasons for the weak performance lately.
- Whether in light of the fact that the pension liability is in effect a liability for the Island's ratepayers, Members and Members of the Audit Committee in particular should be taking a more proactive approach to the management of the pension fund to seek to ensure optimum performance and returns.
- It was proposed and endorsed by Members of the Committee that the Audit Committee in order to reinforce its monitoring intentions in this respect receives the Annual Report on the Performance of the Gwynedd Local Government Pension Fund as matter of course and that the Annual report is presented to a meeting of this Committee scheduled after the Annual meeting of the Pension Fund Management Board in order to allow the Council's representative on the Pension Fund Committee to provide a report back on any issues arising from the Annual meeting.

Gwynedd Council's Corporate Director emphasised that with regard to pension fund performance longevity and life expectancy are key factors and that pension fund investment is an undertaking for the long term and that for the reasons given in the presentation performance should not be judged on a single year's output figures. The Portfolio Member for Finance as this Authority's representative

on the Gwynedd Local Government Pension Fund Committee endorsed the comments made in the presentation with regard to the influencing factors in relation to the pension fund's performance and he explained to Members the reporting arrangements to the Pension Fund Management Committee with regard to the performance of the Fund.

It was resolved to note the information presented in relation to the position of the Gwynedd Local Government Pension Fund and to thank Gwynedd Council's Corporate Director for the presentation.

Action Arising: Head of Function (Resources) to include the Annual Report on the Gwynedd Local Government Pension Fund on the Audit Committee's annual work programme with specific regard to scheduling to allow the Authority's representative on the Pension Fund Committee to provide the Committee with feedback from the Annual Meeting.

4 STATEMENT OF ACCOUNTS 2012/13 AND ANNUAL GOVERNANCE STATEMENT

- A report by the Head of Function (Resources) incorporating the Statement of Accounts for 2012/13 along with the Annual Governance Statement was presented for the Committee's consideration and endorsement. The report provided a synopsis of the main issues arising from the audit of the accounts including a reference those areas to which the significant amendments in the accounts apply along with an updated version of the Annual Governance Statement and the revisions thereto following the submission of the draft to the July meeting of the Audit Committee. Also included in the report was a breakdown of the 3 Towns Programme funding as per the Committee's request at its previous July meeting.

The Head of Function (Resources) informed the Committee that the County Council's draft accounts were presented for audit on 28th June online within the statutory deadline. The accounts as made available to the Audit Committee ahead of this meeting include amendments made as part of the audit process. However, since that time there have been additional adjustments made particularly as a result of the audit of the Gwynedd Pension Fund Accounts which has disclosed discrepancies between the number of active and deferred members within the scheme between February and August, 2013 which could materially affect the value of the pensions liability within the 2012/13 accounts. The accounts have been revised accordingly and an updated version prepared and made available online earlier in the day. Some delay has been occasioned due to the departure early in September of the lead officer on the accounts and due to the main Accountant being on leave at this time also meaning that it has been a challenge to collate all the information and incorporate it within the final accounts. Following the audit, a debriefing meeting with the Auditors will be held to review the number and extent of the adjustments to the 2012/13 accounts with a view to further improving the accounts preparation process for next year.

- The report of External Audit setting out the matters arising from the audit of the Financial Statements of the Isle of Anglesey County Council's for 2012/13 that require reporting under ISA 260 was presented for the Committee's consideration.

Mrs Lyn Pamment, Engagement Partner, PwC informed Members that at the time of the writing of the ISA260 report, there were several matters outstanding in relation to the audit as listed under section 6 of the report. The Auditor proceeded to table a letter which provided an update on each of the audit procedures identified as outstanding in section 6 along with the outcomes. She referred to the fact that at the time of the presentation of the ISA 260 report the Appointed Auditor was considering the form of his audit opinion on the financial statements pending resolution of the issues identified regarding the valuation of the pension's liability in the Statement of Accounts. Since those have now been dealt with and the accounts amended accordingly as noted in the update letter and to the satisfaction of the auditors with regard to there being no risk of a remaining material misstatement in this regard, the Appointed Auditor intends to issue an unqualified opinion on the Statement of Accounts 2012/13.

The Auditor then proceeded to highlight other significant issues arising from the audit which the Committee was asked to consider prior to endorsing the financial statements as follows –

- Uncorrected misstatements identified in the financial statements as at section 10 of the report and the update letter and the value thereof. These have been discussed with management but remain uncorrected. If the decision is to not correct these misstatements then the Authority is asked to provide reasons for non-correction.
- Corrected misstatements as set out in Appendix 3 of the report and the update letter which document matters that have been corrected by management but which it is considered should be drawn to the attention of those charged with governance, the most significant one being in relation to an error in the way that internal recharges were dealt with in the accounts.
- The significant audit risks that were identified during the audit planning process and the outcome of the audit procedures in respect of those risks as set out in paragraph 12 of the report.

Audit procedures undertaken in relation to the following areas subject to estimation risk:

- Fixed Asset valuations
- Job Evaluation and equal pay liabilities
- Waste provision
- Pensions – the Auditor specifically referred to the tabled letter which provided an update on the adjustment actions taken by management to rectify the situation with regard to the IAS19 provision within the accounts.
- Other significant issues arising from the audit confined to the oversight of the financial reporting process as explained under section 38 of the report.

The Auditor drew Members' attention to one other matter noted in the update letter with regard to the pressure put on the finance team at the latter stage of the accounts production process to produce a CIPFA Code complaint final draft of the Statement of Accounts in time for the Audit Committee and the need consequently to put in place arrangements to ensure that the finance team has adequate and appropriately skilled resources going forwards.

In the ensuing discussion, Members of the Committee sought clarification of a number of points relating to the following matters to which the Officers and Auditors responded with additional information and explanation:

- With reference to the errors identified by sampling whether there was potential for further errors if more extensive testing had been undertaken
- The material misstatement identified in relation to the oversight of the production of accounts which it was pointed out was substantial and whether this was due solely to lack of more detailed scrutiny pre-audit.
- Whether in light of the identification of the difficulty in permanently filling positions in the Finance Team as a risk to the accounts preparation process, it is timely to be considering reinforcing the Finance Team.
- Job Evaluation and Equal Pay liabilities and whether contingency arrangements are sufficient to meet any unforeseen eventualities.
- Slippage on the 3 towns programme and whether the oversight arrangements with regard to ensuring the timeliness of expenditure on such programmes as well as their value for money are adequate particularly in terms of accountability. It was suggested and agreed that the Head of Service for Economic Development be invited to a meeting of this Committee to explain the grants process in respect of monitoring arrangements, ensuring grants expenditure provides value for money and ensuring that grant programmes and expenditure have the desired impact with particular reference to the 3 Towns programme..

It was resolved –

- **To recommend to the County Council at its meeting on 26th September, that it approves the Statement of Accounts inclusive of the amendments as reported by External Audit to this Audit Committee and subject to the receipt of confirmation by External Audit via the Chair of the Audit Committee of the finalisation of its accounts review process.**
- **To approve the Annual Governance Statement 2012/13 and to refer the document to the Leader of the Council and the Chief Executive for their signatures.**

ACTIONS ARISING:

- **Chair of Audit Committee to confirm with full Council on 26th September the receipt of External Audit confirmation regarding the completion of its review of the accounts.**
- **Head of Function (Resources) to invite the Head of Service (Economic Development) to a meeting of the Audit Committee to explain the oversight and accountability arrangements in relation to the grants process with specific reference to the 3 Towns Programme.**

5 EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE

Mr Andy Bruce, WAO updated the Committee on the status and progress of items on the Performance Work Programme both national and Anglesey specific. Members accepted and noted the information presented.

- Mr Andy Bruce presented the Appointed Auditor's Improvement Assessment Letter 1 for the Committee's consideration. The Letter provided an initial assessment of whether the Isle of Anglesey County Council has discharged its duties and met the requirements of the Local Government Measure 2009 particularly with regard to improvement planning and making arrangements for continuous improvements including progress on recommendations identified in previous assessments and addressing financial challenges. A further update Letter would be issued by the end of November, 2013.
- Mr Andy Bruce proceeded to highlight and elaborate on the Appointed Auditor's conclusions as set out in the Assessment Letter.

Members considered the contents of the Letter and a point was made regarding the adequacy of the Authority's scrutiny arrangements following the reduction of the number of scrutiny committees from 5 to 2. Mr Andy Bruce said that the quality and content of scrutiny discussions are key considerations and that effective scrutiny output can be equally if not better achieved with less scrutiny groups as with many.

It was resolved to accept the Improvement Assessment Letter and to note its contents.

NO FURTHER ACTION ARISING.

6 RISK MANAGEMENT AND INSURANCE

A report by the Head of Function (Resources) on the latest position with regard to the implementation of the risk management framework and also the updated the insurance claims position was presented for the Committee's consideration.

The Risk and Insurance Manager informed Members that the Risk Management Strategy and Risk Management Guidance are currently being reviewed and amended to reflect changes over the past 12 months in the way the Council operates and also changes to the management structure which processes also provide an opportunity to change what is reported to Members. It is consequently proposed that only the top risks and any significant changes to other corporate risks are reported to Members together with the progress on any actions to mitigate those risks. This proposed new reporting format is exemplified by the streamlined version of the Risk Register at Appendix A which reflects the principal risks only and related mitigating actions.

Members welcomed the new risk register format as a more meaningful tool to enable the Audit Committee to monitor the risk position and resultant actions for the top corporate risks with the proviso that the register is fully populated with regard to information about mitigation actions and timescales against all the risks cited and that explanatory commentary is also provided with regard to any risk movements so that Members can make sensible judgements.

It was resolved to accept the report and to endorse the proposed new risk reporting format.

NO FURTHER ACTION ARISING.

7 INTERNAL AUDIT - PROGRESS REPORT APRIL - AUGUST, 2013

A progress report on the work of the Internal Audit Section for the period from 1 April, to 30 August 2013 was presented for the Committee's consideration. The Audit Manager drew the Committee's attention to the main considerations of the report in terms of performance, outcomes and outputs.

The ensuing discussion focused on the issue of recommendation implementation in relation to schools and whether it is a case of trying to audit a system that is in need of review given the recurring issues with regard to aspects of financial management in schools. Mention was made of a previous point of discussion in relation to putting in a resource into schools to address and manage financial systems thereby reducing the pressure on school staff in this regard and enabling internal auditors to carry out their audit work without taking on an advisory role as well. The Audit Manager explained that the audit checklist with regard to schools is limited in scope and is confined to key financial controls and governance – consideration is being given to strengthening the checklist to include more financial indicators. Consideration is also being given to other actions in terms of the audit approach and oversight of schools e.g. sending out self-assessment forms to schools and risk assessing which schools to target instead of the present rolling programme with a view to providing a more robust challenge to schools.

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

NO FURTHER ACTION ARISING

8 INTERNAL AUDIT REPORTING

A report outlining a proposed new reporting framework for internal audit reports including the reporting of progress on the implementation of recommendations was presented for the Committee's consideration.

The Audit Manager informed Members that it is proposed that the reporting of a summary of Internal Audit work carried out, the significant issues identified through Internal Audit work in the period and the recommendation implementation rates of "significant" recommendations made along with the IA's forward work programme be reported to senior management on a regular basis with the objective of raising awareness of issues raised by the work of Internal Audit. Such reports would also aim to provide a timely reminder of the outstanding High and medium category recommendations in their area and those recommendations which have implementation timescales coming up in the near future. The Officer said that internal Audit will also take this opportunity to review the format of progress reports to the Audit Committee as part of this general review of reporting lines so that reporting to both senior management and the Audit Committee are aligned.

Members endorsed the proposed new approach.

It was resolved to accept the report and the new proposed IA reporting framework.

9 ANNUAL REPORT ON THE PREVENTION OF FRAUD AND CORRUPTION

The Annual Report for 2012/13 on the Council's activity in preventing fraud and corruption was presented for the Committee's consideration.

The Audit Manager referred to the areas which the Council's Policy for the prevention of fraud and corruption covers along with the outcomes during 2012/13 in relation to detection, investigation and prosecution on an authority basis as well as in conjunction with the National Fraud Initiative. Reference was made to developments in relation to proposals to introduce a Single Fraud Investigation Service.

It was resolved to accept the Annual report for 2012/13 on the Prevention of Fraud and Corruption.

NO FURTHER ACTION ARISING

10 TREASURY MANAGEMENT QUARTER 1 2013/14

An update report by the Head of Function (Resources) on treasury management activities during the first quarter of 2013/14 was presented for the Committee's consideration including an outline of the main considerations in relation to the Council's borrowing and investment approach in the quarter in the context of the economic background and outlook and in light of the advice of Sector, the Council's treasury advisors.

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

NO FURTHER ACTION ARISING

11 INSPECTION OF REGISTERS AND DECLARATIONS OF INTEREST

The Audit Manager confirmed that the registers of interests and declarations of interest had been made available to Members of the Audit Committee for their inspection immediately prior to the Committee's formal meeting. There was no feedback from that exercise in terms of further action to be taken.

12 NEXT SCHEDULED MEETING

Noted as 2:00 p.m. on Wednesday, 11th December, 2013.

**Councillor R.Llewelyn Jones
Chair**