

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM
2/3, CIVIC OFFICES, ANGEL STREET, BRIDGEND ON WEDNESDAY, 24 SEPTEMBER
2008 AT 2.00PM

Present:-

Councillor T Hacking - Chairperson

<u>Councillors</u>	<u>Councillors</u>
C Davies	M Gregory
E Dodd	M C Wilkins
P A Evans	

Officers:

G Moss	-	Corporate Director - Resources
A Phillips	-	Head of Property and Finance
J Smith	-	Chief Accountant
G Doak	-	Principal Auditor
I Pennington	-	KPMG
C Griffiths	-	KPMG
K Lucas	-	Computer Auditor
E Samways	-	Group Auditor
C Branford	-	Cabinet and Committee Officer

20 APOLOGIES FOR ABSENCE

Apologies were received from the following Councillors, for the reasons so stated:-

Councillor D Buttle	-	Illness
Councillor G Davies	-	Work commitment
Councillor A Jones	-	Other commitment
Councillor M Reeves	-	Work commitment
Councillor W H C Teesdale	-	Ill health

and from the following Officer:

N Meredith - Chief Internal Auditor - Illness

21 DECLARATIONS OF INTEREST

None.

22 MINUTES OF PREVIOUS MEETING

RESOLVED: That the minutes of the previous meeting held on Wednesday, 20 August 2008, be approved as a true and accurate record.

23 FINAL STATEMENT OF ACCOUNTS 2007/08

The Corporate Director - Resources introduced the report, explaining that he had brought the Statement of Accounts 2007/08 before Council on 18 June where he had advised Members that the accounts were subject to external audit. He advised that what was being brought before Members at today's Audit Committee meeting represented those accounts incorporating adjustments made as a result of the audit.

He drew Members' attention to paragraph 4.1 of the report which referred to a post audit adjustment increasing the bad debt provision for Council Tax by £488k. He advised that other post audit adjustments had not had an effect on the Council fund, one of these being the movement of funds to the Earmarked Reserve, taking it up to £845k.

Ian Pennington and Catherine Griffiths of KPMG gave a presentation on the final Statement of Accounts 2007/08. Mr Pennington began by advising the Committee that auditing standards required external auditors to talk through any adjustments, or system or control issues with them. He stressed KPMG's independence from the Council and its Officers, and advised that there were no conflicts of interest. He advised that new requirements regarding the analysis of accounts had been introduced by the Statement of Recommended Practice (SORP) for 2007, which BCBC's officers had been able to fulfil. He welcomed BCBC's use of narrative and interpretation in its Statement of Accounts which made for greater clarity and user friendliness. He also welcomed the Annual Governance Statement which BCBC had produced on a voluntary basis, as this was not a requirement until 2009. He made particular reference to the fact that Bridgend was the only Council in Wales to have produced a voluntary statement and congratulated the Council accordingly.

Mr Pennington highlighted that the faster closing of the books was something for the accountancy team to look at for 2008/09.

He drew the Committee's attention to a number of issues that would affect next year's accounts:

- Property Valuations - The likelihood of downward pressure on these valuations as a result of the economic downturn.
- Capital Programme - The Credit Crunch had now been added to BCBC's risk register and could have implications for schemes such as Porthcawl Regeneration.
- Council Tax and National Non-Domestic Rates - There would be serious implications should local businesses default on payments.
- Pension Deficit
- Risk of higher workload for certain areas such as Benefits and Council Tax as a result of the credit crunch. This risk would require high level monitoring.

The following Audit Issues and Adjustments were highlighted:

- Equal Pay/Job Evaluation - The target for completion is 2009 but there is still uncertainty over the timescale for this project. It was not possible at this stage to accurately assess the financial requirement given the ongoing job evaluation exercise and the assessment of potential valid equal pay claims.
- Materials Recovery and Energy Centre MREC - The provision in the accounts should be adequate. The amount is not in the public domain and the report to Cabinet on MREC was discussed in part 2 of that meeting.

- Pension Scheme Deficit - There was a reduction of £49m in liability in 2007/08. There is a slight risk that liability will increase next year. There is much volatility in this area. The Corporate Director - Resources advised that the figures provided reflected the market conditions as at 31 March 2008.

Catherine Griffiths, KPMG explained that there had been very few audit adjustments necessary as a very good quality set of draft accounts had been produced by BCBC. She explained that there had been an increase in the Resources underspend by £200k following their audit of the Housing Benefits Subsidy Grant claim, and also an adjustment required to the Council Tax bad debt provisions amounting to £488k.

She highlighted some unadjusted audit differences, such as a potential change in accounting practice relating to the holding of Fire Services reserves in the local authority's accounts rather than in the Fire Authority accounts but this did not impact on the council's general reserves.

Under the heading of System and Control Matters, Miss Griffiths suggested that bank reconciliations should be evidenced as being done in their entirety throughout the year, perhaps on a monthly basis, rather than at year end as was done currently. She advised that the segregation of duties within payroll opened up the potential for error or fraud and this area should have tighter controls. She highlighted the lack of *evidence* of review of payroll audit reports as an issue to be addressed. She expressed concern over missing employee files, an issue which raised questions about the safeguards in place to prevent sensitive data from possibly falling into the wrong hands. She advised also that some employee files had been found to be incomplete and suggested that a stricter policy was needed on the required content for employee files.

In response to a question from the Committee, she advised that the majority of these issues had been raised before in previous audits.

The Corporate Director - Resources advised the Committee that all these points were accepted by management and that the transfer of Human Resources records from across the Council was partly responsible for an initial problem with employee files which would hopefully be resolved in the future by the introduction of an electronic management system, currently being piloted in the department. He suggested that a sweep of buildings to locate files would be very resource intensive and not guaranteed to resolve the problem. He advised looking to the future to eradicate these problems through tighter controls. He agreed that payroll audit reports should bear a signature as evidence of review, which was being undertaken.

In response to a question from the Committee, Mr Pennington of KPMG clarified that the role of external audit was primarily to ensure that the accounts were fairly stated, and as such it differed from the role of internal audit.

Other system and control matters highlighted were:

- Capital Accounting - This should ideally be carried out throughout the year as opposed to at year end.

The Chief Accountant advised that the process of doing this had already begun. It was agreed that there were both benefits and costs to the Authority from in year accounting. The Chief Accountant advised that an issue was caused by the receipt of grant expenditure late in the financial year. The Corporate Director - Resources

explained that culturally local government had a reputation for drawing a cut off point at 31 March, but that services did have some flexibility which they should be encouraged to make use of. He added that the Welsh Assembly Government could not allow BCBC the flexibility that the Authority allows its services to have.

- Performance Indicators - Improvements in accuracy were evident compared with last year. There were only three PIs that KPMG did qualify and they acknowledged the difficulty of collecting information in these areas. Staff attitudes to PIs vary widely across the Directorates, but the Quarterly Business Review Process has added focus to PIs. Room for improvement remains in this area.
- Use of Resources - Overall, improvements had been noted since 2006/07. More positive arrangements are now in place to ensure that use of resources is maximised, and better value for money promoted. The Corporate Plan's links to priority themes and to Directorate Business Plans have also improved.

The following key issues were highlighted:

- Children's Services - Care and Social Services Inspectorate Wales (CSSIW) have yet to revoke the protocol in place and the issue needs to be addressed.
- Asset Management - There is a need for better management of assets, in order to generate more income.
- Job Evaluation - Due to delays, JE will not be resolved until late 2009.
- Procurement - Improvement activities are ongoing in this area.

The KPMG representatives outlined the post-audit activities:

- Post balance sheet events - The Corporate Director - Resources confirmed that no material changes had occurred since the date of the balance sheet.
- Final letter of Representation by KPMG - This document to be noted and agreed by the Committee.
- Finalising of accounts and the signing process.
- Relationship Manager's Annual Letter.
- Conclusion of the 'Use of Resources' studies carried out.
- Regulatory Plan 2008/09 - Work to commence on next year's plan.

The KPMG representatives concluded by stating that they were generally pleased with BCBC's Statement of Accounts 2007-09.

It was

- RESOLVED: (1) That the Committee notes the audited Statement of Accounts 2007-08, and
- (2) Notes and agrees the Final Letter of Representation by KPMG.

24 ANNUAL INTERNAL AUDIT OPINION

The Head of Property and Finance presented the above report, explaining that the role of the Chief Internal Auditor was separate from the Corporate Director - Resources and from his own role, and that he was obliged to give an opinion on the Council's internal control arrangements. He directed the Committee's attention to paragraph 4.1 of the report which stated that the Chief Internal Auditor had formed the opinion that these arrangements provide adequate assurance that the key risks were controlled.

It was

RESOLVED: That Members note the report.

The Chairperson thanked all attendees and the meeting closed at 3.10pm.