

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM 2/3, CIVIC OFFICES, ANGEL STREET, BRIDGEND ON WEDNESDAY, 23 SEPTEMBER 2009 AT 2.00PM

Present:-

Councillor E Dodd - Chairperson

Councillors

D Buttle  
C Davies  
P A Evans  
M Gregory

Councillors

A Jones  
M Reeves  
W H C Teesdale  
M C Wilkins

Officers:-

D McGregor - Assistant Chief Executive - Corporate Development and Partnerships  
G Moss - Corporate Director - Resources  
A Phillips - Head of Property and Finance  
J Griffiths - Group Manager - Strategic Planning and Resources  
G Doak - Group Auditor (GD)  
I Pennington - Audit Director - KPMG  
M Arthur - Senior Auditor - KPMG  
V de Zouche - Audit Manager - KPMG  
K Lucas - Computer Auditor  
E Samways - Group Auditor  
J Monks - Cabinet and Committee Officer

73 APOLOGIES FOR ABSENCE

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

Councillor G C Davies - Holiday  
Councillor T Hacking - Holiday  
H M Williams - Other Council business

74 DECLARATIONS OF INTEREST

Councillor D Buttle declared a personal interest under item 4 - Final Statement of Accounts 2008/09 as he is a School Governor at Maesteg Comprehensive School.

75 MINUTES OF THE PREVIOUS MEETING

RESOLVED: That the minutes of the meeting of the Audit Committee held on Thursday, 26 August 2009, be approved as a true and accurate record.

76 WALES AUDIT OFFICE - REPORT ON SCHOOL MODERNISATION

The Assistant Chief Executive - Corporate Development and Partnerships introduced the Wales Audit Office report which formed part of the Regulatory Plan for 2008/09. He explained that although it had been some time since the work had been done, the context of the Auditor's findings and recommendations had not changed.

He drew Members' attention to key elements of the report and highlighted the Auditors conclusion at paragraph 4 which had been encouraging and gave some confidence that the Authority had a realistic approach to school modernisation, and were satisfied with the arrangements that had been put in place. He added that this would not have been as strong a few years ago.

Although there were financial constraints due to the current economic climate, in terms of progressing the School Modernisation Programme, the Authority was not experiencing the problems that other local authorities were encountering, which was largely due to the programme being managed in a structured way.

The Assistant Chief Executive - Corporate Development and Partnerships reported that the Authority had secured additional funding since the report was written, which had slightly narrowed the funding gap allowing other projects to move forward.

He then introduced the Group Manager - Strategic Planning and Resources to the Committee who was responsible for overseeing the Programme.

The Group Manager - Strategic Planning and Resources informed the Committee that the programme brief for School Modernisation was in draft format at the time the audit was carried out but had subsequently been finalised. Responding to a question from Members regarding the make up of the team, she advised that training had been organised by the Centre of Excellence in Sunnyside, which was completed by the team in February, and the Centre of Excellence Manager had been commissioned to undertake a health check on the team. As a result there was now a Senior Project Manager and two temporary Project Officers in post, and at the last meeting of the Project Board it had been agreed that the two temporary posts could be made permanent.

She advised that there would be a requirement for further support, but this was dependent on funding being available through the 21<sup>st</sup> Century School fund. However, in the meantime it was planned to put in place a further Project Officer on a two year contract, which she stressed, would assist with grant funding bids not just in the Children's Directorate, but throughout the Authority.

Members referred to the £175m needed and acknowledged the challenge of ensuring that the organisational and project management arrangements were appropriate for a programme of such scale. The Group Manager - Strategic Planning and Resources explained that to date money has come through on a proactive basis, but as the Welsh Assembly Government (WAG) moved forward with the 21<sup>st</sup> Century School funding, they had entered the transitional phase and the pot of resources available was being bid for competitively by local authorities.

The Group Manager - Strategic Planning and Resources advised Members that additional funding had recently been secured from WAG. This would enable specific projects (including the rebuilding of Archbishop McGrath Catholic School) to progress. At the time of the audit the overall cost of the school modernisation programme amounted to £228m, but this figure would change due to a number of factors. The Project Team were ensuring that they were ready and in a position to submit strong bids when the funding opportunities arose. She added that the recent fire at Archbishop McGrath Catholic School had in no way affected the Programme as this would be dealt with through the insurance company and WAG. Members believed it was important to involve the community during the early

stages of planning changes to the configuration of provision as this would strengthen the Programme enabling it to go forward.

RESOLVED: That the Committee having considered the Wales Audit Office report noted the recommendations.

77 FINAL STATEMENT OF ACCOUNTS 2008/09

The Corporate Director - Resources gave a brief introduction to the report, explaining that he had brought the Statement of Accounts 2008/09 before Council on 17 June. Although the external audit had resulted in a small number of amendments being made to the financial statement, he had been pleased with the outcome.

The Audit Director, Senior Auditor and Audit Manager of KPMG gave a presentation on the final Statement of Accounts 2008/09. The Audit Director - KPMG began by suggesting that the Committee were familiar with the protocol for external audit and referred Members to the short document which had been distributed with the report, setting out the background of the Statement of Accounts to the year ended March 2009.

He stressed KPMG's independence from the Council and its officers, and advised that there were no conflicts of interest. He advised that the new requirements regarding the analysis of accounts had been introduced by the Statement of Recommended Practice (SORP) which officers had been able to fulfil. The accounts had evolved into a complicated document, and officers had done a good job in preparing a complete and informative set. He further explained that this year for the first time, officers had also been required to implement the Private Finance Initiative (PFI) accounting which although complicated had been handled well and he commended the Officers involved for the constructive way they had approached the audit.

The Audit Director - KPMG highlighted several primary statements within the Statement of Accounts:-

Analysis of Accounts

The Audit Director - KPMG informed the Committee that the Authority's net assets had decreased to £42m as opposed to £116m in the previous financial year, and went on to explain the reasons for this.

An upward figure of £3m extra re-evaluation due to the Ogmere Centre which had been declared surplus to requirements. There was the impact of an increase of £69million in the net Pension Fund liability, reflecting problems with almost pension schemes in these economic conditions. The increase in liability 2008/09 was caused by a catastrophic falling off in asset values, due largely to the investment in the stock markets value coming down. However, since March 2009 the stock market had gone up by 30/40%. The Pension Scheme had been in deficit for the past five years and he stressed the need for Bridgend to look at ways to redress the balance over time.

Revenue Reserves

The Audit Director - KPMG explained that this included the Council Fund, which was the available monies to deal with unexpected risks, which currently amounted

to approximately £7m. Some local authorities carried lower level reserves, but BCBC had been in the top quartile in Wales on this (although 2008/9 figures not yet available) and he stressed that the Authority should continue to be cautious.

The Audit Director - KPMG referred to the individual Directorates' overspend and underspend which had shown inconsistency over the years. He stressed the importance of not allowing Directorates to overspend.

He informed the Committee that the biggest impact on revenue reserves for the current financial year was specific reserves set up in the year, which included £5.8m on major claims which had been set up in order to cover some significant, potential risks that the Authority was likely to face during 2010/11. Monies had also been provided for Job Evaluation and MREC in the Provisions section of the accounts.

### Economic Climate Considerations

The Audit Director - KPMG drew the Committee's attention to a number of issues to take into consideration relating to the current economic climate:

- Pension Deficit - There was a need for discussions on how to address this going forward.
- Central Government Income - No predictions could be made on what the prospects were for 2010/11, but Whitehall and WAG had indicated that there would be less money to go around, thereby putting pressure on frontline services which would impact on Members and Officers in the difficult decisions they would need to make.
- Budgetary Control Overspend - Preferable if Directorates do not overspend on budget, but it was important when they did, that an action plan was put in place to deal with it effectively and quickly.
- Property valuation - It was important to be aware that lower property values would reduce capital receipts intended to pay for projects such as the school modernisation programme.

### Treasury Management

The Audit Manager - KPMG had observed that the Authority had taken a conservative approach to treasury management, and were proactive in looking at investment criteria, studying the available options. A revised investment strategy had been introduced to look at minimum credit ratings and UK banks only, with the help of a treasury management consultant.

### Audit Issues

The Audit Manager - KPMG referred the Committee to the reserve for job evaluation and the pressure to complete the project by April 2010. The issue was the uncertainty over future payroll costs, as well as the impact of uncertainty on staff morale. She then referred to Materials Recovery and Energy Centre (MREC).

There was a provision of £1.4m set aside in the accounts and similarly the operational issues would need to be resolved with Neath Port Talbot as soon as possible. She further made reference to the Maesteg School Private Finance Initiative (PFI), the arrangement for the provision of a Secondary School in Maesteg. This had been the first year the Authority had to account for this. She commented that these items had involved complex accounting and commended the Officers involved for the work they had completed.

#### Unadjusted Audit Differences

The Senior Auditor - KPMG confirmed that unadjusted audit differences had no material impact on the Statement of Accounts which had been discussed with Management.

He then referred the Committee to the Asset Register which contained properties inherited from both Ogwr Borough Council and Mid Glamorgan County Council. As part of the external audit it was discovered that Bridgend Indoor Market was a lease property and therefore an accounting transaction was required in order to recognise the technical value of that lease. He advised this would be looked at in 2009/10 as part of the conversion to IFRS.

The Senior Auditor - KPMG then explained to Members that the Authority held reserves on behalf of the Fire Authorities, who were not currently permitted to carry reserves themselves. Therefore the accounting difference was to recognise BCBC's portion of the Fire Authority's reserve.

He informed Members that a capital invoice had been received late - a few months after the year end. Therefore this would be shown on the 2009/10 Statement of Accounts.

#### Systems and Controls

The Audit Director - KPMG informed Members of four key areas:-

- Payroll controls
- Capital Accounting
- Budget
- External Audit

He explained that during the last year, internal audit had experienced some difficulties with long term sickness absence of the Chief Internal Auditor which had caused some problems operationally. He advised that this did not become a major problem due to the way the internal auditors had responded to that challenge in taking ownership and also with the Authority's foresight in securing assistance from the Vale of Glamorgan Council. He commended the internal audit team on the way this was handled, which was reiterated by the Committee.

#### Payroll Controls

The Senior Auditor - KPMG reported that the main problem in obtaining employee documents had proved difficult. Documents had been scanned but not yet indexed. The scanning project was due for completion by the end of September.

He advised that a checklist for new employees, leavers and also any changes to job descriptions should be mandatory in order to catch all employees' data. He recommended enhancing procedures to assist in highlighting overpayments sooner, particularly relating to schools where more detailed procedures needed to be implemented.

#### Capital Accounting

The Audit Manager - KPMG referred the Committee to the fact that there were two different systems in place for recording the Authority's properties (one in Finance; the other in Property), which increased risk. However, a plan had been put in place to establish a single Asset Register, which would hopefully eliminate any inconsistencies.

#### Budget

The Audit Manager - KPMG advised that in terms of the budget, external audit had found a specific incident where there was a known reduction in income that had not been reflected in the budget.

The Corporate Director - Resources explained that the specific example related to the reduction in income as a result of the action taken by the Asda Store in Bridgend and that Company's decision not to charge for use of the car park outside the store. He added that this should have been reflected in the budget.

#### Performance Indicators

The Audit Manager - KPMG commented on the Authority's Performance Indicators, which had shown improvement in accuracy over the years. She added that the majority of changes were due to late data arriving from third parties rather than the fault of teams preparing them. Although there were still areas for improvement in terms of the review process, steps had already been taken to undergo more internal data checks.

#### Use of Resources

The Audit Director - KPMG reported that the external audit had noted continued improvements during 2007/08 and 2008/9, in particular within the Children's Directorate where children's social services coming out of intervention was a major step forward. The arrangements to the Local Service Board were positive, as were the Quarterly Business Reviews. He referred to the Asset Management Plan that was due to be implemented and had been approved by Cabinet last Tuesday and highlighted the analysis and consultation the team had carried out. Their process had been put forward to the Wales Audit Office as an example of good practice.

#### Job Evaluation

He then referred to the Job Evaluation project and stressed the need to complete this as this impacted on the staff and their salaries, especially in view of the possibility of some staff having reductions to their salaries.

The Audit Director - KPMG commented that there needed to be better links between business plans and the budget and, although not quite there, he believed the Authority were much closer than they were two or three years ago to achieving this.

Members made reference to the improvement in the general administration of Audit meetings and the great effort that had been put in to make the accounts more easily understood.

Responding to a question from Members on the Pension Scheme the Audit Director - KPMG explained that with the Pension Scheme being split between the local authorities he assured Members that BCBC were allocated their accurate share of the fund. He explained that in March 2010 the next three-yearly formal actuarial valuation was due. The last valuation had recommended a reduction in contributions, but the council had reserved £1.2m to guard against the risk of higher contributions in the future.

The Corporate Director - Resources advised Members that the Authority's ability to close the pension gap was limited, as the Pension Scheme was bound by the national rules and regulations. The choice was either for more cash to be injected into the fund or look after frontline services. He did not believe there was an urgency to close the gap, but agreed that it would need to be done some time in the future. Money had been set aside, which allowed for flexibility and last year this money was used to manage some budget overspends.

The Chairperson thanked the Corporate Director - Resources for his report.

- RESOLVED:** (1) That the Committee noted the audited Statement of Accounts 2008/09, and
- (2) Noted and agreed the Final Letter of Representation by KPMG.

The Chairperson thanked all attendees and the meeting closed at 3.26pm.