

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM 2/3,  
CIVIC OFFICES, ANGEL STREET, BRIDGEND ON THURSDAY, 29 NOVEMBER 2012 AT  
2.00PM

Present:-

Councillor E Dodd – Chairperson

<u>Councillor</u>	<u>Councillor</u>	Councillor
G Davies	J McCarthy	C Westwood
G W Davies	C Rees	H M Williams
C A Green	M Reeves	R E Young

Lay Member

J Williams

Officers:-

H Smith	- Chief Internal Auditor
J Smith	- Head of Finance and Performance
R Martin	- Insurance and Risk Management Officer
I Pennington	- Director - KPMG
R Ronan	- Democratic Services Officer - Committees

18 APOLOGIES FOR ABSENCE

Apologies were received from the following Members:-

Councillor C Jones	- Holiday
Councillor E Venables	- Transport Issues

19 DECLARATIONS OF INTEREST

None.

20 MINUTES OF THE PREVIOUS MEETINGS

RESOLVED: That the minutes of a meeting of the Audit Committee dated 26 September 2012 were approved as a true and accurate record. That the minutes of the Audit Committee dated 4 October 2012 were approved as a true and accurate record subject to the minute relating to apologies for absence be amended to include Councillor C Rees and Councillor M Reeves – attendance at conference.

21 TREASURY MANAGEMENT OUTTURN 2011/12 AND HALF YEAR POSITION  
2012/13

The Head of Finance and Performance presented a report to Committee the purpose of which is to update the Audit Committee as to the outturn position for Treasury Management activities within the Authority for 2011/12 and highlight compliance with the Council's policies and practices. It also presents the half year position for the current financial year.

The Head of Finance and Performance explained to Members that the Audit Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies of the Authority and to facilitate this a Treasury Management Sub-Committee was previously established comprising of three members from the Audit Committee and the Cabinet Member Resources. The Sub-Committee received appropriate training and subsequently met in February 2012 to comment on the Treasury Management Policy Statement for 2012/13.

The Head of Finance and Performance informed Members that following the local government elections and changes to the composition of the Audit Committee there is now a need for additional Member training on treasury management as it is key that all members of the Audit Committee understand their function in the scrutinising of treasury management. She told the Committee that it was not the intention to abolish the sub-committee but for it to function as a smaller group who could examine in more depth issues such as debt portfolio and debt restructure.

The Head of Finance and Performance explained that the training had initially been scheduled to take place prior to the next meeting of the Audit Committee in January 2013, however after discussions with the Chairperson it was considered that this would be too intensive and another date would be selected. A member of the Committee suggested that due to the number of meetings taking place around the budget the training be postponed until the budget has been agreed by Council in February. The Head of Finance and Performance told Members that as the training fed into the budget setting process she would be grateful if Members could accommodate training early in the New Year. The membership of the Treasury Management Sub-Committee would also be agreed subsequent to the training.

The Head of Finance and Performance informed the Committee that the Annual Treasury Management Report for 2011/12 was presented to Council on the 17 October 2012 and is attached to the report at Appendix 1. She confirmed that the Authority has complied with its legislative and regulatory requirements during 2011/12 and the Treasury Management Policy Statement 2011/12, Half Yearly Outturn and Annual Report were all reported to Council in addition to monitoring reports that were also received by Cabinet.

The Head of Finance and Performance explained that as previously the Authority's attitude to risk has been extremely cautious. She told Members that more of the Authority's investment portfolio has been moved into investment instruments with lower rates of return but higher security and liquidity which have resulted in a fall in total investment earnings compared to previous years. Our debt however is lower than the average of other local authorities and there was no long term borrowing taken during the first half of 2012/13.

The Head of Finance and Performance told the Committee that the Capital Programme is being reviewed and is likely to include some additional proposals as part of the Medium Term Financial Strategy relating to the Schools Modernisation Programme in view of recent announcements by Welsh Government to shorten the length of the 21<sup>st</sup> Century Schools Programme. Consideration will also be given to some investment required to facilitate the health and social services integration agenda..

She explained that both the internal and external audit reports made no adverse comments and had commended the Authority on the very tight processes around procedures and debt management.

A member of the Committee commented that it was a compliment to the staff of the finance department and the continued support from KPMG that strengths and areas of good practice were identified in all areas tested and no key issues were highlighted. He commented that this robustness should be applied within the Capital Programme as there was no additional funding available for the schools programme. The Head of Finance and Performance told the Committee that the Authority needs to start planning as far as 2016/17 and take a long term approach to budget setting.

The Committee referred to item 4.1.3 of Appendix 3 and the repayment of £0.05m Invest to Save monies to the Welsh Government and £1m invested on behalf of Bridgend Football Club, they asked the Head of Finance and Performance to elaborate. The Head of Finance and Performance told the Committee that the repayment of £0.05m relates to monies that were borrowed from the Welsh Government to improve space and office accommodation. The Authority bid to receive the monies up front until they could realise revenue savings and repay the debt. She explained that the monies are still being held in Escrow for Bridgend Football Club who have recently asked for a further extension to this arrangement, discussions are therefore currently on going.

RESOLVED: That the Audit Committee:

- Notes the Annual Treasury Management Outturn Report 2011-12 (Appendix 1)
- Notes the Internal Audit Report on Treasury Management (Appendix 2)
- Notes the Half Yearly Treasury Management Report 2012-13 (Appendix 3)

## 22 THE CORPORATE RISK ASSESSMENT

The Insurance and Risk Management Officer presented a report to the Committee that explained the outcome of the Authority's Annual Risk Assessment. He explained to Members that the risk assessment as attached at Appendix 1 identifies the main risks facing the Council, the likely impact of these on Council services and the wider County Borough, and outline what is being done to manage the risks and which individuals are responsible for the Council's response.

The Insurance and Risk Management Officer told Members that the risk assessment has been developed in consultation with Corporate Directors and Heads of Service who along with Cabinet have given it their approval. He informed the Committee that the scoring matrix, shown at Appendix 2 takes into account both the likelihood of the risk taking place and the impact if it did. The inherent risk is measured and then the residual risk; after the risk mitigation measures have been put in place. How the residual scores have changed over the last three years is shown at Appendix 3 and can be used to identify trends.

The Insurance and Risk Management Officer then gave a presentation to the Committee which explained the processes involved in the development of the Annual Risk Assessment. He told Members that BCBC defines a risk as 'any potential development or occurrence which, if it came to fruition, would jeopardise the Council's ability to, achieve its corporate objectives, provide services as planned and fulfil its statutory duties, including the duty to make continuous improvement.'

The Insurance and Risk Management Officer explained that risk management should be a central part of the organisation's strategic management; it should not sit outside the day to day business of the Authority and should be integral to all services. It should also be methodical and have the goal of sustained improvement in services.

Risk Management came as a consequence of the financial scandals of the 1980s and 1990s and a move to create a more transparent business environment, by 2008 risk management had become mainstream. The Local Government Measure now puts a duty on all Local Authorities to secure continuous improvement and risk management is integral to this agenda.

The Insurance and Risk Management Officer explained to Members that risk management has numerous advantages. It helps the Council deliver the best possible services to citizens and protects the financial assets and reputation of the Council. Good risk management mitigates against sudden shocks and unwelcome surprises.

In terms of process the Insurance and Risk Management Officer explained that the most vital thing is to understand the desired long term outcomes and to identify barriers to achieving these outcomes. Risks need to be scored not just on possible impact but on size and dimension and priorities allocated accordingly. Risks are also scored after controls have been applied to determine what effects these controls have had, it should be noted however that controls do not always result in improvement but are stopping the risk getting any worse.

The Insurance and Risk Management Officer outlined to the Committee the nine improvement objectives that the Council is trying to achieve and explained that all risks should be linked to these objectives. He told Members that the process of risk identification would typically begin in the early summer when he would meet with the Heads of Service and Directors to agree the risks for inclusion. A typical risk description would have three parts 'an event giving a consequence leading to an impact'. e.g. Welfare reform may lead to reduction in benefits payable resulting in increased hardship amongst the most vulnerable citizens in the County Borough. Impact is also considered not just in relation to the Council but on the wellbeing of citizens.

Risks are then assessed on the likelihood of occurrence and scored from 1 to 6 with 6 being the highest. Directors and heads of service agree the score by using their professional judgement. The severity of risk is then assessed and scored on a scale of 1-4 by comparing the likelihood with the severity the risk is then given a score. Risk ownership is then attributed in line with the colour assigned to the risk, red are high impact/likelihood risks that require active management by seniors officers and the risk owner will therefore be a member of Corporate Management Board. Amber risks should be closely monitored by the risk owner who will be a Director or Head of Service and Green risks should be managed and monitored within the service.

The Insurance and Risk Management Officer explained to the Committee that the next step was to agree risk mitigation and ensure that any risk improvements are fed into service improvement plans. It was essential that the risk assessment was reviewed and evaluated regularly by directorates.

The Insurance and Risk Management Officer updated Members on the top risks as identified by the Risk Management Assessment, with the top risk being Welfare Reform. He explained that this had appeared as a new risk in April 2012 and had previously been considered as part of homelessness and supporting vulnerable people. From April 2013 there will be a limit on the total benefit a working age person can receive. BCBC will have to impose that cap through Housing Benefit reductions. A recent Scrutiny Task and Finish Group identified the possible number of households affected by this as 78 but the number of people affected by the bedroom cap as 15,000. Many of the risks are interlinked, for example homelessness and welfare reform and the impact of the economic downturn.

A member of the Committee referred to the process of identifying and measuring risks and asked who apart from the Directors and Heads of Service get involved in the process, do the staff responsible for the day to day delivery of the service have any input into the identification of risks. The Insurance and Risk Management Officer explained that work starts on the Risk Assessment in June at which point directorate business plans will have been finalised and themes can be identified. After consultation with Directors and Heads of Services the Risk Assessment will be drafted and sent back for discussion by directorates within their management teams. Once the document has been checked for consistency it goes before Cabinet who have the opportunity to make any changes. The Insurance and Risk Management Officer confirmed that the rank scores are down to the Directors and Heads of Service and are ratified by Cabinet and Corporate Management Board.

A Member of the Committee asked why a scale of 1- 6 is used to assess the likelihood and 1-4 to assess the severity should it not be two scales of equal weight. The Insurance and Risk Management Officer explained that this was historical and has not been changed because of year on year comparison. The Director – KPMG told Members that the system did make it more difficult for officers not just to pick the middle number.

The Committee asked where the responsibility for risks ultimately belonged with the Insurance and Risk Management Officer or the Audit Committee and also is information shared and gathered with other Local Authorities in order to compare risks. The Insurance and Risk Management Officer explained that risk management is integral to the business management of the organisation and he is the facilitator, the monitoring and responsibility for the risk is with the identified officer. The Head of Finance and Performance informed Members that the risk register is monitored as part of the budget setting process. Any concerns would be reflected in the score and would be reported back to the Committee. The Scrutiny Committees would also look at this issue as part of their forward work programme and the section 151 officer or the monitoring officer would be the avenue by which it would come back to the Committee. She explained that as far as consultation with other Authorities, risks are based on local decisions and are not comparable across all Authorities. The Director – KPMG said that local projects such as the town regeneration schemes would not be replicated elsewhere he suggested however that the Audit Committee could ask to have a specific report on the red risks as part of the monitoring process.

A member of the Committee commented that it was obvious that the impact of the Welfare Reforms would be significant and as part of the Medium Term Financial Plan the Council has earmarked reserve specifically for Welfare Reform, the Member asked for clarification as to how this money would be used. The Head of Finance and Performance explained that when this was identified as a potential problem in the budget last year the reserve was created in order to enhance discretionary housing payments. In relation to the bedroom cap the money is intended to bridge the gap for a short period for families who may need to remain in a three bedroom house in order to accommodate a growing family. The reserve will enable people to make adjustments to their budgets.

A member of the Committee asked if in light of the number of households that would be affected by the bedroom cap how many could we potentially help. The Head of Finance and Performance explained to the Committee that we are working with landlords and other agencies to agree an action plan to help ease the transition and a number of options are being considered for example asking landlords to adjust rents. The right type of accommodation is also needed and again we are working with interested parties to agree a way forward.

A member of the Committee agreed that the bedroom cap would affect a huge number of people and cause unnecessary hardship and upheaval; they considered that the building of affordable housing should be a priority.

A member of the Committee asked how the risk score for educational attainment could be deemed to be so low when it was her understanding that only two outstanding comprehensive schools were keeping the Authority from intervention from the Welsh Government. This was an example of how the scoring matrix was not transparent and the Member requested further information from the directorate in relation to how the score was agreed. The Insurance and Risk Management Officer informed the Committee that he would obtain feedback. The Committee member said that they would also ask for this issue to be considered by Scrutiny.

The Committee asked how the scoring for Looked after Children was achieved especially in relation to budget. The Insurance and Risk Management Officer explained that all scoring was agreed within the directorates, he would however refer this back and provide more details.

The Committee commented that they would like further information on how the directorate business plans took into account the identified risks, especially in respect of risks marked red.

**RESOLVED:**

That the Audit Committee:

- Considered the annual risk assessment and endorsed its adoption;
- Receive a further report in April 2013 when progress can be reviewed.

**23 INFORMATION AND ACTION REQUESTS BY COMMITTEE**

The Chief Internal Auditor presented a report to the Committee the purpose of which is to summarise for Members the actions and information requests made by the Audit Committee. She explained this is a standing item on the agenda

The Chief Internal Auditor informed Members that in reference to the Committee's discussion around the wording of the Internal Audit Terms of Reference relating to the Rotation of Staff the suggestion is that the wording be amended to read "in order to ensure objectivity the work assignments of internal auditors will be rotated from time to time and where this is not possible; this will be reported to the Audit Committee". The Committee confirmed that they are happy with this amendment.

The Chief Internal Auditor explained that the Audit Committee at its meeting of the 4<sup>th</sup> October 2012 had asked that the wording of the Internal Audit Strategy, in particular 16.1 be revised so as to reflect that the Internal Audit Section are adopting a more robust approach to any suspected internal financial irregularities. This request has now been actioned and the wording updated accordingly.

The Chief Internal Auditor informed the Committee that she had received a verbal update on the issue of a number of outstanding invoices previously raised with RCT in dispute and not as yet having been paid. She told Members this had been a longstanding issue between the two Authorities but a resolution has been reached, several invoices have been cancelled and re-raised and we are now looking forward to payment from RCT.

**RESOLVED:** That the Committee noted the report and agreed the changes to the Internal Audit Terms of Reference and the Internal Audit Strategy.

#### 24 **COMPLETED AUDITS**

The Chief Internal Auditor presented a report to the Committee the purpose of which is to summarise for Members the findings of the audits recently completed by the Internal Audit Division.

Details of the audits were included in the report and the Chief Internal Auditor told Members that she had no concerns. She explained that in relation to the Audit of Volunteer drivers it had transpired that the section may be contravening the Data Protection Act by retaining full CRB documents and expired CRB's, vehicle insurance and MOTs were not being followed up in a timely manner.

The Chief Internal Auditor informed the Committee that a database has now been developed that will prompt co-ordinators when CRB checks, insurance and MOT's are due. It has been agreed that the Manager will undertake a bi-monthly review of the database. Personal files will now be scanned and retained electronically with password protection and all papers will then be destroyed.

The Committee asked how frequently CRB checks were required and how many drivers were involved. The Chief Internal Auditor told Members that new drivers were required to have an immediate CRB check and then every three years. She would find out how many volunteer drivers there were and report back to the Committee.

**RESOLVED:** That Members gave due consideration to the completed audits report to ensure that all aspects of their core functions are being adequately reported.

25 AUDIT COMMITTEE – RECOMMENDATIONS MADE

The Chief Internal Auditor presented a report to the Committee to update them on the recommendations made since 1<sup>st</sup> April 2012, in accordance with the Audit Committee's Forward Work Programme. A summary of the recommendations prioritised according to risk is detailed in table 1 below. She explained that as the system was a 'live' system and therefore updated daily the data was correct as from 6<sup>th</sup> November 2012.

The Chief Internal Auditor informed Members that as illustrated in table 1 the number of recommendations made totalled 210 with only one being fundamental. A number of recommendations are still awaiting response she explained that this does not necessarily mean that management are outside their timeframe to respond but the report may have just gone out.

The Chief Internal Auditor told Members that Table 3 was new and provides further analysis of the 59 significant recommendations. It provides details of the number of recommendations closed; the number of recommendations not yet implemented and the number of recommendations awaiting a response as of the 6<sup>th</sup> November 2012. The table shows that 17 recommendations have not yet been implemented and 12 of which are overdue the target date set. The Chief Internal Auditor explained to Members that these are currently being followed up with the relevant managers and the expectation is that Internal Audit will receive written confirmation from management on when expected dates for implementation and responsible officer.

The Chief Internal Auditor assured the Committee that if she had any issues or concerns regarding management of the recommendations she would report them back to the Committee.

RESOLVED: That Members gave due consideration to the Implementation of Recommendations report to ensure that this aspect of their core functions is being adequately reported.

26 AUDIT COMMITTEE – FORWARD WORK PROGRAMME 2012-13

The Chief Internal Auditor presented a report to the Committee the purpose of which is to update Members on the 2012-13 Forward Work Programme for the Audit Committee. The Forward Work Programme is attached at Appendix 1.

The Chief Internal Auditor asked Members if there were any areas or topics that they would like to be briefed or trained on as a Committee in relation to their role and responsibility.

The Committee agreed that they would be interested in receiving a similar Governance Case Study as given by KPMG in the previous term of office. They found this extremely interesting and informative. The Committee also agreed that they would be interested to learn more about the day to day processes of Internal Audit, i.e. how and Audit is conducted through all stages.

RESOLVED: That Members gave due consideration to the updated 2012-13 forward work programme to ensure that all aspects of their core functions are being adequately reported.



27 EXCLUSION OF THE PUBLIC

RESOLVED:

That under Section 100A(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business because of the likelihood that, if members of the public are present during this item there will be disclosure to them of exempt information of the description specified in Paragraph 18 of Part 4 of Schedule 12A and Paragraph 21 of part 5 of Schedule 12A of the said Act:-

<u>Minute No.</u>	<u>Summary of Item:</u>
28	Housing and Council Tax Benefit Fraud Investigations Outturn 2011/12 and a Comparison of Position in the First 6 Months of this Year.