

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM 2/3,
CIVIC OFFICES, ANGEL STREET, BRIDGEND ON THURSDAY, 23 MAY 2013 AT 2.00PM

Present:

Councillors

G Davies
G W Davies MBE
E Dodd
C A Green

Councillors

R C Jones
J R McCarthy
M Reeves
E Venables

Councillors

C Westwood
H M Williams
R E Young

Lay Member: J Williams

Officers:

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

54 ELECTION OF CHAIRPERSON

The Chief Internal Auditor explained to the Committee that in compliance with the Local Government (Wales) Measure 2011 the Audit Committee is to appoint the person who is to Chair the Audit Committee. The Chairperson may be a Member of the Authority or a Lay Member but must not be a member of the executive group.

RESOLVED: That Councillor E Dodd be elected Chairperson of the Audit Committee for the municipal year.

(Councillor E Dodd in the Chair)

55 ELECTION OF VICE-CHAIRPERSON

RESOLVED: That Councillor C A Green be elected Vice-Chairperson of the Audit Committee for the municipal year.

56 APOLOGIES FOR ABSENCE

Apologies for absence were received from the following Members:-

Councillor C E Rees - Work commitments.

57 DECLARATIONS OF INTEREST

None.

58 MINUTES OF THE PREVIOUS MEETING

RESOLVED: That the minutes of a meeting of the Audit Committee held on the 21 March 2013 were approved as a true and accurate record.

59 AUDIT COMMITTEE - EXTERNAL AUDIT UPDATE ON PROGRESS RELATING TO THE ANNUAL FINANCIAL AUDIT OUTLINE 2012-13

The Audit Director - KPMG submitted an update to the Committee in relation to KPMG's work as contained within their Annual Financial Audit Outline for 2012-13. He explained to Members that attached at Appendix A is an update on the progress to date and that no significant issues have been identified.

RESOLVED: That the Committee reviewed and noted the content of the letter from the Council's External Auditor attached as Appendix A.

60 THE CORPORATE RISK ASSESSMENT

The Insurance and Risk Management Officer presented a report to the Committee the purpose of which is to explain the outcome of the annual risk assessment.

He informed Members that the Audit Committee's Terms of Reference require the Committee to monitor the effective development and operation of risk management and corporate governance within the Council and to also consider the annual risk assessment.

The Insurance and Risk Management Officer explained that the risk assessment is subject to review and the Audit Committee will receive a further report in January 2014.

The new risk assessment is attached at Appendix 1, it identifies the main risks facing the Council, the likely impact of these on Council Services and the wider County Borough it details what is being done to manage these risks and indicates the risk owner.

The Insurance and Risk Management Officer informed the Committee that the risk assessment is developed in consultation with Corporate Directors and Heads of Service and is reviewed by Corporate Management Board and Cabinet. He explained that it is a 'live' document and informs the way that resources are allocated, it is utilised by Scrutiny Committees and will be considered by Scrutiny when it has been approved.

The scoring matrix is shown at Appendix 2 and Appendix 3 and summarises how the residual risk scores have changed over the last three years.

A Member of the Committee asked if the risk assessment contained all the risks identified in the Corporate Plan. The Insurance and Risk Management Officer explained that it only showed the strategic top level risks, other more service specific risks were included in the Directorate Business Plans.

The Committee noted that as part of the Medium Term Financial Strategy (MTFS), the Council has an earmarked reserve specifically for welfare reform, they asked for clarification as to what this would cover and if this would be an on-going reserve. The Head of Finance and Performance explained that there are two reserves one for ½ million allocated to alleviate service pressures with its use depending on the level of extra demand. The second reserve is for ¼ million and is in relation to direct housing payments.

A Member of the Committee commented that Universal Benefit will not come into effect until September/October and therefore we cannot yet gauge the impact on budget. The Head of Finance and Performance explained that our income from the DWP should not be affected in respect of housing benefits and therefore should not impact the overall income.

A Member of the Committee commented that in relation to educational attainment the possible increase in the number of young persons not in education, employment and training (NEET) has the potential to have a huge impact as the figures are thought to be three times above the Welsh average. This should be taken into account now that measures have been put in place to track children throughout their education, this monitoring should also track improvements. The Insurance and Risk Management Officer told the Committee that he would take the comments back to the Director.

The Committee commented that they were surprised that the residual risk score for supporting vulnerable people had been reduced from a 6 to a 5 as the number of people over the age of 75 will have grown 17% by 2015 and 85% in 2030 surely this would increase demand for services. The Insurance and Risk Management Officer agreed that the population was predicted to get more elderly rapidly. The Head of Finance and Performance agreed that this was a valid point and we do have a programme in place to mitigate against increased pressures for example Adult Social Care are providing services in a different way, the residual risk score is 5 because we know more about the possible effects on budgets.

The Committee noted that in relation to using resources effectively the filling of potholes was an area that needs to be addressed. The same potholes were being fixed repeatedly which would incur repeated expenditure. The Insurance and Risk Management Officer confirmed that he had noted an increase in the number of pothole related claims. This was partly due to an ageing infrastructure and recent adverse weather conditions. He has been advised by the highways department however that they are now using different methods of repair in order to address this issue.

A Member of the Committee asked what the process for making a claim was in respect of damage to cars caused by potholes. The Insurance and Risk Management Officer explained that an assessment was carried out and was based on whether the Council had acted in a negligent manner. Each case was judged on a set of criteria and in a fair manner, the Authority however will defend all claims where they judge it to be justifiable to do so.

RESOLVED: That the Audit Committee considered the annual risk assessment and receive a further report in January 2014 when progress can be reviewed.

61 **INFORMATION AND ACTION REQUESTS BY COMMITTEE**

The Chief Internal Auditor presented a report to the Committee which summarises for Members the actions and information requests made by the Audit Committee.

She informed Members that a summary of actions and information is provided in the table shown at paragraph 4.1. of the report. It has been agreed that a presentation on how an Audit is conducted will be given at the next meeting scheduled for the 20th June.

The Governance case study from KPMG will be scheduled into the forward work programme.

RESOLVED: That the Committee noted the report.

62 **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.

She explained that recently completed audits are summarised in Appendix A and that there were three audits that had been issued with a limited opinion.

A number of issues were identified during the audit of out of county placements the main concern was that no one was assuming overall responsibility for its management. The Corporate Director - Children was however clear where the responsibility lay. Internal audit made 12 recommendations for improvement and the Group Manager Support for Children and Learning has been tasked with overseeing the implementation of the recommendations. The Chief Internal Auditor informed Members that improvements have already been made and internal audit will return in June/July to conduct a further review.

A Member of the Committee asked if the money involved in this audit was for a significant amount. The Chief Internal Auditor advised that the documents were in such a poor state that we cannot tell, income could have been lost but it could also have been gained. The main issues were whether the Authority were charging the correct amount for placements as a proper assessment was not always being carried out at the start of the process and where they were they varied in quality. The Committee questioned when this service had last been audited. The Chief Internal Auditor told Members that she would find out and report back to the Committee.

The Chief Internal Auditor explained that in respect of the audit of ICT purchases by the Children's Directorate this concerned the procurement process conducted by the Youth Offending Service 14 - 19. It was clear during the audit that contract standing orders had not been adhered to and ICT had not been consulted on the purchase of the new software system, this meant that they struggled to provide technical support. The Chief Internal Auditor told Members that in light of this it has been agreed that an email will be sent to all staff advising that ICT need to be involved in all the purchase of all software.

The Committee commented that they were disappointed that the correct procedures had not been followed as they had been in place for a number of years. The Chief Internal Auditor informed Members that this audit will be followed up by internal audit in the next month.

The Chief Internal Auditor informed Members that regarding "Shared Lives" the issue had been around process and procedures and a lack of standardisation within the service. Carers who had been with the Council for some time had been reluctant to provide information which resulted in an element of non-compliance and consistency. She explained to the Committee that there was now a new manager in place and progress is going well, internal audit will however revisit the service to ensure that this improvement continues.

A Member of the Committee noted that in relation to the audit on Procurement, concerns had been raised regarding contractors being allowed four weeks from the date of insurance expiry to provide up to date certificates. This leaves the Authority at risk in the interim and was an area where any relaxation could foster bad practice. It is imperative therefore that we keep on top of this issue. The Chief Internal Auditor explained that the sample testing only identified a low number of problems but it was a concern that it was still happening. This issue will be looked at again during the year and monitored.

The Committee agreed that in respect of staff in the inclusion service not receiving Absence Review Meetings once the absence trigger point had been reached that it was a priority that this should happen. The Chief Internal Auditor confirmed that internal audit would expect to see significant improvement in this area.

The Committee asked for clarification as to the process of self-assessment detailed on the internal audit review of main accounting. The Chief Internal Auditor explained that this was used on a selective basis and documents providing supportive evidence are always provided.

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

63 ANNUAL OPINION REPORT OF THE HEAD OF INTERNAL AUDIT FOR THE PERIOD APRIL 2012 TO MARCH 2013

The Chief Internal Auditor presented a report to the Committee the purpose of which is to give her annual opinion on the overall adequacy of the Council's internal control environment. This is also given in support of the Annual Governance Statement which the Council is required to include with the statement of accounts.

The Chief Internal Auditor explained that the opinion contained within the report relates to the system of internal control at the Council and the overall control environment in place. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure and to achieve corporate/service policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The Chief Internal Auditor informed Members that taking into account all available evidence, it is her opinion that a satisfactory assurance level can be applied to standards of internal control at Bridgend County Borough Council for internal audit work undertaken during the period April 2012 to March 2013.

She explained that during the period ten reviews have identified weaknesses in control at a level where only limited assurance could be given, all of these have been reported to the Audit Committee and management have given written assurance that the recommendations made will be implemented to address the weaknesses identified. In the main where issues have been identified they have related to service areas and are isolated, they do not indicate a break-down across the board.

The Chief Internal Auditor informed Members that in 2011/12 an audit review of Building Maintenance had found that the weaknesses in the internal control environment were so significant that a conclusion of no assurance was the outcome, with particular concerns around compliance with the Council's Contract Procedure Rules. Two further follow up reviews have been undertaken during 2012/13 which have resulted in an overall audit opinion of reasonable assurance in relation to the Internal Control environment. Improvements are evident and this area will continue to be monitored.

The Chief Internal Auditor explained that the main challenge from an audit perspective remains the financial context in which the Council is required to operate. The challenge of delivering further programme of savings will be substantial and impact on all areas of the business. The Council is well placed to respond to this challenge but it could affect the internal control environment.

The volume of Internal Audit recommendations accepted by management was 95.6% and during the period April 2012 to March 2013, Internal Audit made a total of 362 recommendations, of which management gave written assurance that 346 of these will be implemented. The results are summarised at paragraph 4.3 Table 2.

The Chief Internal Auditor informed the Committee that at the completion of each audit, all recipients of reports are asked to comment on their satisfaction with the audit process, by way of a survey, the results are summarised in Table 4 at paragraph 5.1 and show that more surveys are being returned and the average score is improving.

During the period under review the new combined audit section commenced with a total of 16.5 Full Time Equivalent (FTC) posts and as the section lost staff during the year the impact on BCBC's Audit Plan has been a shortfall of 106 productive days representing a 7% reduction. The work undertaken therefore has continued to focus on the high risk areas in order to provide assurance on the Council's overall system of internal control.

The Chief Internal Auditor told Members that despite advertising for staff no candidates could be shortlisted due to the calibre of applicants. It is intended therefore to re-advertise after the new structure and higher pay grades have been implemented, it is hoped that this will attract a wider pool of people.

She explained that Internal Audit has responsibility for raising awareness of the Council's Anti-Fraud and Corruption and whistle-blowing procedure and a total of 62 productive days have been spent on Anti-Fraud and Corruption work. The most significant investigation was a successful criminal prosecution.

The Chief Internal Auditor informed the Committee that after a review of governance arrangements it was concluded that we have good governance across the Council. No significant governance issues were identified within the 2011/12 Annual Governance Statement (AGS) other than already stated in paragraph 2.5 of the report. However, the AGS did highlight the challenges that the Council face in delivering the £14m savings identified in the Medium Term Financial Plan 2012/13 to 2014/15. In light of reduced resources and increased demands on services there is a need to ensure that the control environment remains robust, proportionate and is as efficient and effective as possible.

She told Members that a significant risk for the Authority is the fact that a number of strategic directors have left the Council in recent months. The process of restructuring including the selection and appointment of key officers will be essential to achieve strong leadership and effective management.

The Committee noted that the financial future for the Authority will be difficult and it is imperative that what we do we do correctly and that the Committee continues to provide support and guidance.

The Chief Internal Auditor commented that the reduced resources and budget pressure will make it difficult for audit and we therefore need to ensure that plans are achieved.

The Committee asked how many vacancies there were currently within the Audit Section. The Chief Internal Auditor responded that there were 7½ vacancies which had been advertised on the intranet, internet and through job centres. The Committee asked why they had not been advertised in the press and the Chief Internal Auditor explained that it was a matter of cost, it could cost between £3,000 and £4,000 to place an advert in the Western Mail.

The Committee agreed that the Authority should look at casting the recruitment net wider.

A Member of the Committee noted that apprenticeships were an issue that were being looked at by the Corporate Resources and Improvement Overview and Scrutiny Committee and asked whether an investment in this area could be considered a feasible option.

The Head of Finance and Performance explained that she currently had two trainees within her Section who have been with the Authority for six years, they are now extremely competent members of the team. The drawbacks to filling positions in this way are that training takes time and requires ongoing investment.

The Chief Internal Auditor informed Members that she saw the restructure as key in terms of gradings, however Internal Audit do currently have an excellent trainee in post and plan to advertise for a second. She confirmed that there is no age limit on the posts.

RESOLVED: That Members gave due consideration to the Head of Internal Audit's Annual Opinion covering the period April 2012 to March 2013 to ensure that all aspects of their core functions are being adequately reported.

64 ANNUAL GOVERNANCE STATEMENT 2012 - 13

The Head of Finance and Performance presented a report to the Committee the purpose of which is for the Audit Committee to approve the Annual Governance Statement (AGS) 2012-13 for inclusion in the Council's pre-audited Statement of Accounts 2012-13. The AGS is attached at Appendix A.

She explained that Regulation 4 of the Accounts and Audit (Wales) Regulation 2005 introduced a requirement for the Authority to be explicitly responsible, as part of its arrangements for Corporate Governance, for annually reviewing and reporting on internal control. The CIPFA Code of Recommended Practice (the Code) states that the preparation and publication of an Annual Governance Statement (AGS) in accordance with "Delivering Good Governance in Local Government" fulfils the statutory requirement regarding the production of a statement of internal control in England, Wales and Northern Ireland. The Regulations also state that the AGS must be included in the Authority's Statement of Accounts.

The six core principles of good governance are listed at paragraph 4.1. Each core principle has a number of supporting principles outlining what they mean. The supporting principles in turn translate into a range of specific requirements that should be in place within the Council.

The Head of Finance and Performance explained that the Annual Governance Statement provides an overall assessment of the Council's corporate governance arrangements and an appraisal of the controls put in place to manage the Council's key risks it also identifies where improvements need to be made. The AGS was reviewed by Corporate Management Board and now needs to be approved by the Audit Committee, prior to being signed by the Leader of the Council and the Chief Executive.

The Council has approved and adopted a Code of Corporate Governance. The governance framework comprises the systems, processes and values by which the Authority is directed and controlled and the means by which it accounts to, engages with and leads the local community.

The Head of Finance and Performance said that it was important to note that the Council approved a Medium Term Financial Plan for the period 2012-13 to 2014-15, which has now been developed into the Medium Term Financial Strategy 2014-15 to 2016-17. This provides an integrated planning and financial framework for the next four years and includes the detailed budget strategy for the next financial year. The annual revenue budget, forward financial planning together with the capital programme enabled the Council to align its financial resources with its priorities. Quarterly budget monitoring reports are submitted to Cabinet and to Scrutiny Committees, with the Corporate Resources and Improvement Scrutiny Committee nominated as the lead Scrutiny Committee.

Improvement priorities are identified in the Corporate Plan and Directorate Business Plans and the Programme Management Board (PMB) is overseeing a number of major initiatives under its Strategic Change Management Programme some of which are listed at paragraph 4.6.

The Head of Finance and Performance explained to the Committee that the Auditor General issued a letter concluding that the Authority has a good level of self-awareness in its Annual Report which provides a balanced account of its performance, accounting for its failures to perform, as well as promoting its success.

She told Members that Principle 2 details how Members and Officers work together to achieve a common purpose with clearly defined functions and roles and the Head of Finance and Performance noted that Scrutiny Research and Evaluation Panels (REP's) are an invaluable and important mechanism by which to inform views. The Constitution is at the heart of the Council's business and assigns responsibility within in the Authority. The Constitution is a comprehensive document that is kept under continual review. In addition the Authority has a number of other procedures which provide a framework and guidance. Good governance is about compliance with these procedures in a consistent manner.

The Head of Finance and Performance informed Members that the Council's core values are encapsulated in the acronym FACE which demonstrates the Council's commitment to the Public Service Values. The Council's core values are clearly set out and openness and transparency runs through the organisation.

The decision-making process is monitored by five Overview and Scrutiny Committees. The Members of a Scrutiny Committee can "call in" decision that has been made by Cabinet but not yet implemented. They may also be consulted by the Cabinet or the Council on forthcoming decisions and on the development of policy.

The Head of Finance and Performance explained that the Council changed its performance management arrangements in July 2012 and established the Corporate Performance Assessment (CPA) Forum. The CPA is held quarterly to assess the Council's in-year performance and monitor how well services are performing against improvement objectives.

The diagnostics work undertaken by the Wales Audit Office revealed that the Council has shown an appetite for challenging and improving services. The findings also reflected the fact that a high percentage of Members and Senior Officers believe the Council strives to achieve more innovative ways of delivering services.

The Head of Finance and Performance explained that the Council has developed a robust approach to the management of risk and all risks are assessed against the Corporate criteria. The main risks facing the Council that were identified during 2012-13 are listed at paragraph 7.11.

The Head of Finance and Performance informed the Committee that the Council has responsibility for annually reviewing the effectiveness of its governance framework including the system of internal control. This draws on assurance from independent sources and in particular Internal Audit, External Audit and other external regulators.

The Internal Audit Section conducted a self-assessment on its effectiveness which was reported to the Audit Committee in March 2013. The review showed that the Internal Audit Section achieved 100% compliance with the Code. The Wales Audit Officer's Annual Audit Letter confirmed that the appointed auditor issued an unqualified audit opinion on the accounting statements for 2011-12 and was satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The Head of Finance and Performance confirmed that the Public Services Ombudsman had only investigated two complaints for the year 2011-12 compared with five for the previous year. The Ombudsman did not issue any upheld reports against the Council during 2011-12.

The Care and Social Services Inspectorate Wales (CSSIW) Annual Review for Bridgend 2011-12 identified two particular risks. One related to the increases in the number of looked after children which had been identified on the Council's risk register. The other was the potential impact of significant changes in senior leadership in terms of managing emerging threats. In October 2012 Estyn Inspection carried out a major inspection of the quality of education services for children and young people in Bridgend. The report was published in February 2013 and even though it identified that the Council had more strengths than areas for improvement, it still concluded that the Council fell into the category of follow-up activity and will require an Estyn monitoring visit.

The Committee commented that it was important in light of these two issues that we have a stable and effective Corporate Management Team.

The Committee asked whether plans have been put in place to replace the current Director – Childen on her retirement as in light of the Estyn Inspection there was a sense of urgency about ensuring correct management was in place. The Head of Finance and Performance responded that the situation is in hand and will be able addressed more fully when the senior management restructure has been agreed.

The Head of Finance and Performance informed Members that the Annual Governance Statement 2011-12 highlighted the significant financial challenge facing the Council in terms of delivering a savings target of the £14m savings identified in the Medium Term Financial Plan 2012-13 to 2014-15. In February 2013, the Medium Term Financial Strategy (MTFS) 2013-14 to 2016-17 was reported to Council. It identified the pressures that the Council faces in the context of the anticipated resource allocation. This indicates that the Council has to identify estimated budget reductions a £24m over the period 2013-14 to 2016-17.

RESOLVED: That the Audit Committee reviewed the Annual Governance Statement (Appendix A) and approved its inclusion in the pre-audited Statement of Accounts 2012-13 as outlined in the report.

65 AUDIT COMMITTEE FORWARD WORK PROGRAMME 2013-14

The Chief Internal Auditor presented a report to the Committee to update Members on the 2013-2014 Forward Work Programme for the Audit Committee.

RESOLVED: That Members gave due consideration to the updated 2013- 14 forward work programme to ensure that all aspects of their core functions are being adequately reported.

66 PROPOSED FINAL ANNUAL AUDIT PLAN

The Chief Internal Auditor presented a report to the Committee which detailed the Council's proposed final Annual Audit Plan for the year April 2013 to March 2014.

She informed Members that the 2013-14 final Annual Audit Plan of work has been formulated to ensure compliance with the standards as contained within the Public Sector Internal Audit Standards (PSIAS). The detailed plan is attached at Appendix A.

AUDIT COMMITTEE - 23 MAY 2013

RESOLVED: Members considered and approved the final Annual Audit Plan for 2013-14 as outlined in this report.

The meeting closed at 3.50pm