

MINUTES OF A SPECIAL MEETING OF THE AUDIT COMMITTEE HELD IN  
COMMITTEE ROOM 2/3, CIVIC OFFICES, ANGEL STREET, BRIDGEND ON MONDAY,  
24 SEPTEMBER 2007 AT 10.00AM

Present:-

Councillor J C Spanswick - Chairperson

<u>Councillors</u>	<u>Councillors</u>	<u>Councillors</u>
D T Anderson	G Davies	W May
D A D Brett	P A Evans	M C Wilkins
A E Davies	R M Granville	

Officers:

G Moss	-	Executive Director - Resources
A Phillips	-	Assistant Director - Finance
J Smith	-	Chief Accountant
N Meredith	-	Chief Internal Auditor
I Pennington	-	KPMG
C Griffiths	-	KPMG
G Lloyd	-	KPMG
A McQuaid	-	Relationship Manager - Wales Audit Office
G Jones	-	Principal Cabinet and Committee Officer
C Branford	-	Cabinet and Committee Officer

204 APOLOGIES FOR ABSENCE

Apologies were received for Councillors M L Simmonds and W H C Teesdale who were on holiday.

205 DECLARATIONS OF INTEREST

None.

206 MINUTES OF THE PREVIOUS MEETING

RESOLVED: That the minutes of the meeting of the Audit Committee held on 23 August 2007 be approved as a true and accurate record.

207 STATEMENT OF ACCOUNTS

The Executive Director - Resources apologised that the appendix distributed with the report was not the latest version and issued the correct version of the appendix to those in attendance at the meeting. He then introduced the report which presented the audited version of the Council's Statement of Accounts 2006/07. He reminded Members that the pre-audit accounts had been presented to Council on 20 June 2007. The Auditors had identified some amendments to the accounts which were minor technicalities and were described in the report.

The Executive Director - Resources highlighted the potential impact of equal pay and job evaluation. He informed the Committee that the Council was of the view, based on the claims received to date, that many of the equal pay claims would be

defendable. However, it was possible that the Authority may receive successful claims which may have a financial implication. He agreed with the auditors that a note be made in the accounts to reflect this uncertainty. He continued that the £1m in reserves for the purpose of Job Evaluation would be used to cover equal pay claims and was an appropriate position for the Authority to be in at this stage.

He welcomed the quality of the audit and the benefit of the robust discussions that had taken place.

Members expressed concern about the General Reserve Fund being used for the purpose of paying out for equal pay claims. The Executive Director - Resources assured the Committee that utilising this fund was a possibility, it was equally possible that monies could be drawn from elsewhere, including front line services. He stressed that claims were still being received and it was impossible to provide a definitive figure at the moment. Mr Pennington suggested that whilst there were different circumstances for every Council, a unique set of circumstances prevailed at Bridgend County Borough Council.

The representatives from KPMG gave a presentation which covered the key aspects of the financial statements. He pointed out that it was the responsibility of KPMG to present to the Audit Committee their findings as a result of the audit undertaken and to make any adjustments to financial statements.

Mr Pennington explained there had been some changes to the nature of financial statements in order to provide an easier comparison to those from other sectors (eg private companies and banks). He highlighted the primary statements showing income and expenditure for year end 31 March 2007. He pointed out that the preparation of this statement was facilitated by adoption of the principles surrounding it last year at because the Authority had pre-empted the changes in the Statement of Recommended Practice (SORP) and therefore the new requirements had been easily incorporated.

Mr Pennington informed the Committee that the Maesteg School PFI agreement had been signed and that there were two ways of recording this agreement on the accounts. It could either be recorded as a fixed asset or be treated as a rental of the school, and the one adopted would have a significant impact upon the financial statements of the Authority. He explained that in making the decision of which one best reflected the arrangement, it had been necessary to examine the risks and rewards of ownership and that many of these risks and rewards stayed with the operator. It had been agreed that this PFI would not go on the balance sheet but would be treated as a rental and that Bridgend County Borough Council would carry the cost when the school came into use. Members requested clarification on this issue and it was explained that once the contract had been entered into the funding for the school had to be paid.

Mr Pennington explained that the deficit in the pension scheme was calculated in accordance with accounting rules and that liability had gone up more than assets this year which was disappointing. He added that an actuarial evaluation took place every three years, with the next valuation being due December 2007 and the potential impact on contributions will need to be dealt with accordingly.

Mr Pennington informed the Committee that this years Revenue Reserves deficits or surpluses would not be carried by individual directorates as was the case previously. Any deficits or surpluses would now be dealt with corporately rather than promoting the fiction of directorates 'owning' either their deficits or surplus

funds. He believed this to be a good piece of financial management, and stated that the strategy would be continued with types and levels of reserves being analysed annually.

Mr Pennington pointed out that the most significant transaction in terms of fixed assets in the last financial year had been the sale of land to ASDA. He believed that it was beneficial that external experts had been appointed in the form of the professional valuers King Sturge and that Cabinet approval had been sought for the scheme, with the opportunity for the Overview and Scrutiny function to challenge the decision.

Catherine Griffiths - Audit Manager began by pointing out the changes to the accounts as a result of the audit. The adjustments included an adjustment to the Job Evaluation reserve to take into account the need for an equal pay provision, corrections of the figure for debt provision calculation and to the insurance provision calculation. These particular corrections were due to minor faults in the computer system which the finance team had identified and under accrual in Personal Services accounts.

The Audit Manager informed the Committee that some concerns regarding personnel files had been identified. She stressed that KPMG were aware of the upheaval caused by the reorganisation of the Human Resources Department but were still concerned about missing files, Payroll controls and reconciliations being authorised and procedure to ensure that documents were being reviewed by Managers. She drew the Committee's attention to the high expenditure levels in March (Period 12). Executive Director – Resources indicated that whilst not untypical in local government he had already identified with his colleagues that this was an area which he would be examining. Clarification was required to identify whether this pattern was the result of a backlog in the processing end of year accounts or as a result of ensuring that available budgets were spent by year end. This led to concerns regarding the higher risk of errors and a worry that controls may be by-passed.

The Joint Legal Services partnership was identified by the Audit Manager as an example of a good partnership but stressed that some partnership arrangements within the Authority were not so well formalised. She expressed the hope that examples of good practice would roll out across the Authority. One recommendation from KPMG was that all reports to Cabinet and Council should include a risk section in addition to the sections for financial and legal implications.

The Statement of Internal Control was identified as an interesting and informative document which KPMG had acknowledged was an example of best practice. KPMG had noted that there had been significant improvements from last year to this year in the operations of the Authority and that the overall improvements noted since 2005/06 included the appointment of new senior managers, the introduction of Quarterly Business Reviews and a new Performance Management Framework. The reorganisation of Human Resources department, the optimism that Children's Services may leave protocol for serious concern in early 2008 after full inspection and Internal Audit 'satisfactory opinion' all supported this assessment.

In response to a question from the Committee, Mr Pennington told Members that he believed the Audit Committee represented good value for money and that it had improved exceptionally from four years ago. He pointed out that the Committee's role was to challenge the Executive and he felt that they had a good understanding of resource issues. He suggested the next step was for the Audit Committee to

pick projects to undertake and invite the executive into the meetings to explain the use of resources in Bridgend County Borough Council.

The Audit Manager suggested that in order to make improvements the following areas needed to be considered:

- performance management of services and staff should ensure that PI's are being properly utilised in all departments.
- Time pressures mean that arrangements to maximise the use of corporate asset base are not a number one priority
- Delays in the job evaluation project mean that there are uncertainties going forward in the budgets for next year.
- There are other minor issues which would will be reported at a future date.

The Executive Director - Resources commented that it is a time of uncertainty for Bridgend County Borough Council staff and reminded the meeting that reorganisation entailed an inevitable impact on services and also on finances. He cited the shake-up in the Human Resources Department as an example of a Member-led process of change.

The Audit Manager outlined the account tasks to be implemented in the near future, they included: the formal signing of the statement of accounts, , the drafting of the Relationship Manager's annual letter (the Audit Manager informed the Committee that there will be a Joint Risk Assessment meeting with Corporate Management Board tomorrow), and the drawing up of the Regulatory Plan for 2007/08.

The Audit Manager thanked the finance team for their work and concluded the presentation by drawing attention to a new requirement, the International Statements on Audit 260 Declaration of Independence and objectivity which states that external auditors must be independent and impartial in their work and that relations between the auditor and their client must be disclosed in writing.

Members thanked representatives of KPMG for the clear and helpful way in which they delivered their presentation and the Executive Director - Resources for the user-friendliness of the report and the way in which the information was set out in a clear and easy to understand format.

In response to a question The Executive Director - Resources stated that it may be inappropriate for the Committee to question the issue of job evaluation as this is the role of the Overview and Scrutiny function. He did however agree for the need for a report to presented to the Audit Committee in order to keep them informed of developments on job evaluation and consequential impact upon the risk profile of the Council. He suggested that caution should be exercised with regard to the job evaluation process and that the Audit Committee should be wary of becoming too closely involved with it.

- RESOLVED:
- (1) That the audited Statement of Accounts 2006/07 (Appendix 1) be noted.
  - (2) That the final letter of representation by KPMG (Appendix 2) be noted and agreed.

The meeting closed at 11:35am.