

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM
2/3, CIVIC OFFICES, ANGEL STREET, BRIDGEND ON THURSDAY, 13 MAY 2010
AT 2.00PM

Present:-

Councillor E Dodd - Chairperson

<u>Councillors</u>	<u>Councillors</u>	<u>Councillors</u>
D Buttle	P A Evans	M C Wilkins
C Davies	M Gregory	H M Williams
G Davies	M Reeves	R E Young

Officers:-

A Phillips	-	Head of Property and Finance
H Smith	-	Chief Internal Auditor
G Doak	-	Group Auditor
I Pennington	-	KPMG
J Ferris	-	Head of Procurement
M A Galvin	-	Senior Cabinet and Committee Officer

95 APOLOGIES FOR ABSENCE

Apologies were received from the following Members:-

Councillor W H C Teesdale	-	Other council business
Councillor M Reeves	-	Hospital
Councillor T Hacking	-	Unwell

96 DECLARATIONS OF INTEREST

Councillor R E Young declared a personal interest in Agenda Item 4(b), Annual Internal Audit Opinion, in view of the fact that he is employed with the Bridgend College of Technology and page three of the report makes reference to reviews undertaken previously, one of which was in relation to Adult and Community Education.

97 MINUTES OF THE PREVIOUS MEETING

In relation to page 73 of the Minutes with regard to the Committee requesting further information in respect of Audits previously undertaken, the Group Auditor advised that the further information sought regarding Volunteer Drivers had still not been received from the appropriate Corporate Director.

Certain information had been received in relation to Street Lighting, however, as with the above, a further report would be submitted to a future meeting.

The Group Auditor was able to advise Members verbally, that the Council check around 7,000 street lighting columns per year for defects.

The past eighteen months an energy saving programme had been undertaken in respect of the Cefn Glas area, and to date 990 units had been inspected, with a further 530 inspections planned within the next two months.

The task had fallen behind schedule, as there were more units to be repaired as was originally anticipated.

The Group Auditor confirmed that a re-assessment would be undertaken after conclusion of the Cefn Glas inspections, to ascertain how long the programme would take to complete for the whole of the County Borough.

The Head of Property and Finance added, that he had noted that there were currently five issues that required follow-up action, these being collation of School Meal income, Ynysawdre Pool, Volunteer Drivers, Highway Maintenance update and Street Lighting and follow-up reports on all of these would be submitted before Members in due course when all information was to hand on each of the services.

The KPMG representative advised Committee that as discussed at the previous meeting, follow-up reports and actions would be monitored more closely than previous, by way of the new Management Information System that would monitor internal follow-up Committee work, whilst the Assistant Chief Executive Corporate Development and Partnerships would ensure that a similar course of action was undertaken in respect of any concerns highlighted by the Authority's external auditors to areas of the Authority following their Annual Audits, as part of a Position Statement which would be periodically reported to Committee.

98 COMPLETED AUDITS

The Group Auditor presented a report which summarised Audits that had been completed in respect of the following areas:-

<u>Service Area</u>	<u>Audit Opinion</u>
Purchasing Cards	- Limited Assurance
Main Accounting	- Substantial Assurance
Treasury Management	- Substantial Assurance
Council Tax and NNDR	- Adequate Assurance
Adult Community Learning	- Adequate Assurance
Ynysawdre Pool Project	- Adequate Assurance

An Internal Audit Final report was attached to the report at Appendix 'A' in respect of Purchasing Cards, and the Head of Procurement had been invited to the meeting to explain the process of how the cards are allocated for business transactions, given that the Audit Opinion regarding the operation of these cards had been deemed to be of Limited Assurance.

The Group Auditor firstly gave an overview of how the cards worked.

He stated that they had been introduced as part of a value for money initiative, whereby relatively small value purchases could be made by cardholders much the same way as normal credit cards were used.

The advantages of using the card were to cut out the paperwork associated with normal purchasing transactions, with the end result being that the cost of the transaction being taken out of the Council's account following the purchase being made.

The Group Auditor emphasised that the important part of the process was that the designated cardholder arranged timely checks of the electronic returns received, in respect of transactions so as to ensure 'good housekeeping', and it seemed that this was not always being complied with.

He confirmed that it was also a responsibility of the cardholder's Manager, to ensure that the card was being used properly and that purchases made were relevant and not in any way ultra vires.

There were good controls of the system generally, i.e. that cards for example issued to library staff were only being used for purchases of books and journals, etc, and the Group Auditor considered that if the system was operated effectively across the board, purchasing cards were extremely useful for their designed purpose. However, there were instances highlighted that some cardholders were not making the necessary checks on costs the Authority were incurring as a result of transactions made resulting in the system not operating as effectively as it might otherwise be.

This was resulting in the Accountancy Section undertaking unnecessary chasing-up and reconciliation work.

The fact that the system was not operating as well as it should be, had resulted in it not being extended to other areas of the Authority other than where it currently operated, until it had been established that the process of using the cards was being implicitly followed by cardholders and their Managers.

In response to concerns from a Committee Member in relation to certain provisions highlighted in the Internal Audit Final report, the Head of Property and Finance confirmed that the system currently highlighted a number of weaknesses, and the Management Action Plan on page 4 of the Appendix sought to address these.

He advised that future usage of the card would see tighter controls being implemented.

Card holders already sign a Cardholder Agreement when allocated a card he added, setting out their roles and responsibilities. In future, if they failed to strictly abide by the Agreement, the card will immediately be taken off them.

More consistent usage and regular checks would be made by the Cardholder and their Manager, so as to ensure that the card was used properly and that checks on transactions were closely monitored, and payments married up to transactions.

It was also important he stressed that a record was made and regularly updated to account for new cardholders and to take cards off employees who were no longer within the Authority.

The Head of Procurement then explained more about the usage of the cards.

He advised that the card was currently being used in only three areas of the Council, these being Building Maintenance, Fleet Services and Library and Information Services.

It had been the intention to carry out a pilot across all schools, however, this had been aborted in view of the suspension of card roll out.

The Head of Procurement explained that the purchasing cards would only be used in areas where the business process need did not accord with the Authority's E:Procurement System, for example payments for travel.

In terms of proposals for control, he advised that a process would soon be undertaken to establish an up to date list of all current cardholders, and in order to maintain these records in the future, a cardholder cancellation form would be included as part of training for potential cardholders that would be given to Managers so that an accurate record of cardholders is established.

Monthly checks were also intended to be put in place to ascertain that appropriate monitoring and reconciliation work was being carried out by the cardholder and/or their manager.

If an offence was deemed to have occurred in relation to any aspect of use of the card, the first instance of this would see the cardholder receive a warning, a second offence would result in the card being taken off the employer.

Members welcomed the fact that cardholders were monitored by their Manager in terms of using the card for transactions and checking these against payments, as they felt that supervision of card usage was imperative.

The Head of Procurement confirmed that cards would not be allocated to any employee, as when an application was made for a Purchasing Card, this had to be backed up by a robust business case.

There were also category codes for different products they would purchase and limitations would be put in place on what they could spend and what products they were entitled to buy. These were then subject to approval by the Procurement Section and the Head of Property and Finance.

Appropriate software also allowed for checks to be made on purchases and spend patterns, to see if there were any "irregular or maverick" transactions being processed.

The Head of Procurement then responded to a number of questions from Members on who was accountable for the proper use of the cards (Card Supervision, i.e. Manager) though the recent audit had proven that effective supervision in the use of the purchasing cards was not presently being applied in all cases.

The Head of Procurement then advised of the procedure in relation to how the card should be used, for the benefit of the Committee, including how VAT for transactions was recouped centrally via the Accountancy Section.

A Member of the Committee made reference to the importance of transactions being reviewed and this was one of three key areas identified where there were currently weaknesses and that the provisions of the proposed Management Action Plan would address these.

The Head of Property and Finance assured the Committee that it would be made clear to card holders and their supervisors in the future that should any purchasing cards distributed not be used properly in accordance with the terms of the

Agreement, then the cards would be withdrawn. He added that he would support this by advising of the Committee's concern on this same issue.

He further added that there had not been any evidence to suggest that cards were being inappropriately used, the issue related more to certain administrative failings and checking of bills for purchases.

The other audits that had been undertaken as outlined in the report had proven to be deemed as Adequate Assurance or above, so Members of the Committee were generally happy with the findings regarding these.

It was noted that in respect of the audit of Adult Community Learning, Internal Audit had suggested that CRB checks of all staff were not necessary, however, the Department supported by Human Resources, insisted that these checks were carried out as a matter of course.

In terms of the Ynysawdre Pool Project, the audit revealed that some aspects of the Project were well controlled. There was a significant and unexpected risk highlighted in relation to the ground conditions, which contributed to extra funding being committed over the agreed tender price so as to resolve these and sustain works to the re-build itself.

Suggestion had therefore been made by Internal Audit for improved management of Consultants in relation to future projects.

Members agreed with the suggestion of extra internal control for future major projects particularly in the current economic climate, and that the tendered price agreed should be the total cost of the Project rather than experience any further costings and ad-ons for unforeseen work and/or associated problems.

- RESOLVED:
- (1) That the report on Completed Audits be noted.
 - (2) That the Committee awaits a further follow-up report on the issue of Purchasing Cards.

99 ANNUAL INTERNAL AUDIT OPINION

The Chief Internal Auditor presented a report to Members regarding the Head of Internal Audit's Annual Opinion on the overall adequacy of the Council's Internal Control environment.

The Chief Internal Auditor advised that the Audit Year covered July - June and that the Opinion outlined in the report covered two years, from April 2009 to March 2010.

The Internal Audit Opinion supported the Annual Governance Statement and reflected performance against the Plan in relation to key issues, for example the National Fraud Initiative, key areas of Risk Management, the Relationship Manager's Annual Letter and the overall governance arrangements of the Authority, and in evaluating its effectiveness in endeavouring to achieve the Organisation's objectives.

The Chief Internal Auditor confirmed that there were no revisions to the Plan during the year. However, the plan did start to slip during January 2010 but under the Shared Services arrangement it had been possible to utilise staff from the

Vale of Glamorgan to address the shortfall. Overall the plan was achieved with a very small shortfall of 27 days.

Paragraph 4.7 of the report outlined the audit reviews undertaken during the year, together with their completion dates and the overall Audit Opinion reached in respect of these.

The Chief Internal Auditor confirmed that in order to quantify the opinion on the adequacy of the Internal Control Environment a score was allocated to each review ranging from 1 – 4. The overall average of this exercise had been calculated as 1.63, which supported the overall opinion..

Similar work had been carried out in respect of the audit of Schools and Computer Audits, where a similar average to that detailed above was calculated, though there had been some concerns highlighted regarding the control within one school in particular.

The Chief Internal Auditor explained that it was still deemed important to ensure that control weaknesses in systems are dealt with and given priority by management particularly in those reviews where limited or no assurance has been given as set out in the report..

The Audit Section had also looked at the involvement of the Authority in the National Fraud Initiative with a view to demonstrating that it was proactive in looking to reduce and take action against instances of fraud.

The audit reviews undertaken during the year had amounted in total to 601 recommendations being made to improve the systems audited, and only a small amount of these (0.07%) were considered to be fundamental with the bulk of the recommendations made, around 73%, being categorised as Merits Attention where the action required by management is desirable.

In terms of feedback from clients following the reviews, 99% of those received considered the work of Audit in this regard to be good/satisfactory, however, this figure may not be entirely accurate given that only 50% had provided such feedback added the Chief Internal Auditor.

The Chief Internal Auditor also stated that she had placed some reliance from the Wales Audit Offices' Good Governance diagnostic in order to support the overall opinion on the Council's overall governance arrangements. The Wales Audit Office concluded that there are good examples of governance principles being embedded in the way the Council works and BCBC compares well with other Councils across Wales.

Members enquired whether or not Corporate Directors and Heads of Service agreed to implement the majority of recommendations made as a result of the audit reviews.

The Head of Property and Finance assured that they did, however, it was not always possible to implement those that had a significant resource implication.

He added that the Chief Internal Auditor could look to obtain direct support from the Chief Executive, the Audit Committee and its external Auditors if it considered that Service Managers were not complying with the implementation of recommendations that were deemed imperative as a result of a completed audit.

The Group Auditor in response to a question confirmed that recent concerns in relation to follow-up audits would be pursued further and reported back to Committee, particularly in relation to school meal arrears, notwithstanding the fact that the Children's Directorate intended to change the practices and procedures that were currently in place.

RESOLVED: That the Committee notes the report.

100 PROPOSED INTERNAL AUDIT PLAN - JULY 2010 - JUNE 2011

The Head of Property and Finance submitted a report which presented to Members the proposed Council's Internal Audit Plan for the above period.

The Chief Internal Auditor presented the report, and advised of the importance of Internal Audit planning effectively in accordance with the Internal Audit Code of Practice.

She explained that in recent years, the formalisation of the Plan had been compiled by way of an Excel spreadsheet, which had encountered some difficulties.

In light of this a Management Information System (APACE) had been procured as a form of an alternative. This was designed to provide for the full automation of all aspects of audits into one integrated piece of software, the key benefits of which were improved planning, better controls and greater efficiency, and the system had been used to put together the forthcoming Plan shown attached to the report at Appendix 'B'.

The Plan had been fast tracked to the Audit Committee, however, it was subject to possible amendment, as it was the subject of consultation with the Corporate Directors which was presently ongoing. Any subsequent changes to the Plan would be submitted to the Audit Committee at its July meeting.

Discussion to date with Corporate Directors had proved very constructive and Internal Audit had been able to take into consideration the majority of managements views on the coverage and timing of the areas contained within the Internal Audit Plan.

It was considered that the Plan struck a good balance between the risks identified, Internal Audit resources available and other assurance work being carried out by relevant agencies.

The Chief Internal Auditor advised that the provision of an adequate and effective Internal Audit function was a statutory requirement.

The Plan had been compiled on a Directorate by Directorate basis, further broken down where appropriate and reflected the risk element attached to the areas of service that will be audited; a suggested timetable for the service areas in terms of when they each should be audited based on the Risk factor attached to these

areas, and an estimate of how long it would take for these individual audits to be completed.

The Risk Total/Risk Rating of the service area was reflected in the proposed Plan by a higher figure or graded A - E, with A indicating the highest area of risk.

The Chief Internal Auditor explained to Members that the service areas had been rated in terms of risk following the undertaking of a Risk Assessment having taken place.

Issues examined as part of the Risk Assessment covered matters such as the size of the service area, volume of transactions it dealt with, the number of employees in that particular area, the control environment and the impact upon the organisation should something go array in the service area.

The Chief Internal Auditor explained that the Risk Assessment exercise would be followed on an annual basis and categories could change in the same areas from year to year should the situation of control alter.

The system would also generate information regarding follow-up audits that may be required, which would form part of further reports to the Committee as and when required for monitoring purposes, and to ensure that whenever possible recommendations made as a result of a completed audit were followed-up and implemented.

The Head of Property and Finance emphasised that whilst there was a priority to concentrate on high risk areas of the Authority, this should not be to the detriment of service areas of lower risk not being audited.

The Chief Internal Auditor confirmed that the Schools Programme of Audits for 2010/11 would go ahead as planned. However, controlled Risk Assessment questionnaires would be distributed also and when these were completed, returned and examined this would assist in ascertaining assurance levels within schools.

Members requested that it may be of benefit to them if they were able to look at the System to see how it operated.

The Chief Internal Auditor agreed that this could be arranged at a future date.

RESOLVED: That the report be noted.

The meeting closed at 3.43pm