

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM
2/3, CIVIC OFFICES, ANGEL STREET, BRIDGEND ON THURSDAY, 5 AUGUST 2010
AT 2.00PM

Present:-

Councillor E Dodd - Chairperson

<u>Councillors</u>	<u>Councillors</u>	<u>Councillors</u>
C Davies	T Hacking	C Westwood
G Davies	M Reeves	M Wilkins
P A Evans		

Officers:

A Phillips - Head of Property and Finance
G Doak - Group Auditor
K Lucas - Computer Auditor
J Jenkins - Benefits Manager
I Pennington - Audit Director - KPMG
C Branford - Cabinet and Committee Officer

111 APOLOGIES FOR ABSENCE

Apologies were received from the following Members:

Councillor D Buttle - Unwell
Councillor M Gregory - Holidays
Councillor H M Williams - Work commitments

112 DECLARATIONS OF INTEREST

None.

113 MINUTES OF THE PREVIOUS MEETING

RESOLVED: That the minutes of the meeting of the Audit Committee held on 8 July 2010 be approved as a true and accurate record subject to the following amendments:
That Councillor M C Wilkins' apologies are added.
That, in minute no. 109, the following sentence is added to the fourth paragraph: 'in cases where an audit opinion of 'no assurance' was given these reports would automatically come before the Audit Committee'.

114 EXTERNAL AUDIT REPORT - FINANCIAL STATEMENTS AUDIT PLAN
31 MARCH 2010

The Audit Director - KPMG introduced a report which provided the Committee with information on how KPMG, as the Council's external auditors would deliver their audit work for BCBC.

He explained that in previous years the Committee had received the Wales Audit Office's Regulatory Plan, however, with the introduction of the Local Government Measure, there was no longer a requirement to produce a Regulatory Plan, and

instead KPMG would produce an audit plan detailing the work they would be undertaking over the year.

He advised that the majority of audit work undertaken involved a detailed audit of the financial statements and Annual Governance Statement, and the other element involved assessing the use of resources. He summarised the four key stages of the financial statements audit process, and using payroll as an example, explained that KPMG would begin by examining the controls BCBC had in place to determine whether or not they were effective. Payroll reconciliation represented one control which BCBC performed and which external audit would then test. Substantive procedures were a test of the detail carried out using a random sample. Control evaluation was nearing completion and the next stage was to undertake a review. Substantive procedures were currently being undertaken and a summary of finalisation would be brought before the Committee in September.

Members asked if in undertaking substantive procedures, KPMG would use the knowledge already gathered from BCBC's internal audit section.

The Auditor Director - KPMG explained that if problems were identified with the controls in certain areas these would be red flagged and more substantive procedures would then need to be carried out. Ideally the controls in place would be effective because if they were not it would be necessary to undertake further substantive procedures which involved more time and resources.

In response to a question from Members, the Auditor Director - KPMG advised that the audit process undertaken by KPMG followed a standard model used by all auditors. The Group Auditor explained that although the work of internal audit informed the work done by KPMG, internal audit were focussed on ensuring that there were effective controls in place at the present time whilst KPMG had responsibility for auditing the accounts for the year.

The Auditor Director - KPMG advised that the accounts would be signed off at the end of September, some adjustments would be necessary and these would be reported to the Council. The adjustments were not sufficient to constitute a material difference. The Head of Property and Finance advised that audit differences were a matter of differing interpretations rather than factual differences.

The Auditor Director - KPMG outlined the key audit risks: Valuation of Council Assets, Equal pay/job evaluation, Private Finance Initiatives, Implementation of IFRS. He advised that Council assets were valued at approximately £400m and if the values had been incorrectly recorded in the financial statements this would have a serious impact. In terms of the reserves ear-marked for equal pay claims, a judgement would be made based on the opinion of lawyers on the likely number of successful claims. The way in which PFI's were accounted for would be changing this year, and as this was a complex area there was a risk of incorrect disclosure on the financial statements.

The Head of Property and Finance advised that under the previous regulations the Council's current PFI contract, Maesteg School, would not appear on the Council's balance sheet but on the balance sheet of the private company. With the change in regulations, the asset would have to appear on the Council's balance sheet but be marked as a loan.

RESOLVED: That the report be noted.

115 EXTERNAL AUDIT REPORT - CERTIFICATION OF GRANTS AND RETURNS 2008 - 09

The Audit Director - KPMG introduced a report the purpose of which was to present the report of external audit on BCBC's grant work for 2008-09. He advised that BCBC had made improvements in the way in which it prepared grant applications, and some good work had been undertaken by the finance team particularly by the Grants Co-ordinator. Some adjustments had been made, as outlined in the report but these were not substantial. School Building Improvement Grant (SBIG) claims were a matter for concern because KPMG's review revealed that one of the claims had not had final approval from the Chief Finance Officer before being submitted.

RESOLVED: That the report be noted.

116 INFORMATION AND ACTION REQUESTS BY COMMITTEE

The Group Auditor introduced a report the purpose of which was to summarise the actions and information requests made by the Audit Committee.

RESOLVED: That the report be noted.

117 COMPLETED AUDITS

The Group Auditor presented a report the purpose of which was to summarise for Members the findings of audits recently completed by internal audit.

He advised that there had been an improvement in the way in which new starters and those changing posts were recorded. Although there were still concern over the inability to find some older records of personnel, the audit in respect of new employees was adequate. A compensating control mitigating the inability to find older personnel files was that budget holders should be checking payroll costs in their budget reports.

Members asked if it was known how many records were missing and what impact this would have in the future.

The Head of Property and Finance explained that there was a risk to an employee's pension/retirement plans if a record of their entire length of employment with the Authority could not be located. An annual statement was sent to those in the Local Government Pension Scheme listing their years of service and there was an opportunity to correct this record if necessary. He suggested that there was a need for a clearer statement of the situation, and that the Committee should be kept informed of processes put in place to address the issues. Members agreed that a request should be made of Human Resources for a position statement on the missing personnel files.

The Group Auditor advised that the results of the audit of Housing Benefits showed that the service was well controlled. He highlighted the fact that the function was operating in an environment of increasing demand on its service without a corresponding increase in resources.

The Group Auditor further advised the Committee that the results of audits on the Pupil Referral Unit, Fuel and Fleet Services all showed that adequate controls were in place to mitigate risks.

He advised that a review of the Corporate Anti fraud and Corruption Strategy had found the controls to be adequate but the Strategy did need to be updated. Internal Audit would undertake this revision and report back to the Committee in January 2011.

The Computer Auditor advised the Committee in respect of the audit undertaken in relation to the disposal of ICT assets. She advised that following ICT centralisation there had been concern about data being expunged from the hard drives as the Authority changed from owned to leased assets. The procedures for expunging data from hard drives were found to be effective, however in respect of older owned equipment, they relied on the assets being returned to the ICT Department.

There was also the issue of encryption of equipment. The majority of mobile ICT equipment had now been encrypted and the ICT Department was pursuing any outstanding items.

Members questioned what control the ICT Department had over assets in schools.

The Computer Auditor explained that individual schools were responsible for their own assets. Any older Authority equipment provided by ICT to the schools would have all data expunged from the hard drive. New equipment purchased by the schools, through the Authority, would only have the hard drive encrypted if they purchased a licence. The Head of Property and Finance confirmed that BCBC had an audit role in schools and if any issues were highlighted these would be reported to the school's governing body. The Group Auditor confirmed that schools were frequently reminded of their responsibilities in relation to ICT security, and self assessment questionnaires were given to schools. The Computer Auditor added that school staff had been given training on the six simple rules for using ICT. ICT engineers who covered schools and would highlight to them any security issues. A security forum was held every month which included a representative from schools. The Head of Property and Finance assured Members that the issue of data security in schools was taken seriously in the Authority, and any issues which came to light would be pursued. It was agreed that a request be made of Human Resources for a position statement on the missing personnel files.

- RESOLVED: (1) That the report be noted.
- (2) That a clear position statement be received from the Human Resources Department so as to ensure that the older personnel records are complete.

118 IMPLEMENTATION OF RECOMMENDATION

The Head of Property and Finance introduced a report the purpose of which was to present Members with progress made on the implementation of recommendations made since 1 July 2010. He explained that the database was work in progress and needed to be refined.

AUDIT COMMITTEE - 5 AUGUST 2010

RESOLVED: The Committee noted the report and determined to request that information be provided to them on any 'significant' and 'fundamental' recommendations which had not been actioned by the target date.

119 **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 would be disclosure to them of exempt information as defined in Paragraph 12 of Part 4 of Schedule 12A of the said Act:-

<u>Minute No.</u>	<u>Summary of Item:</u>
120	Confidential Report of the Head of Property and Finance.