

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN THE COUNCIL CHAMBER, CIVIC OFFICES, ANGEL STREET, BRIDGEND ON THURSDAY, 16th SEPTEMBER 2010 AT 2.00PM

Present:-

Councillor E Dodd - Chairperson

<u>Councillors</u>	<u>Councillors</u>	<u>Councillors</u>	<u>Councillors</u>
C Davies	P A Evans	T Hacking	C Westwood
G C Davies	M Gregory	M Reeves	R E Young

Officers:-

J Smith	- Chief Accountant
H Smith	- Chief Internal Auditor
G Doak	- Group Auditor
R Martin	- Risk Management and Insurance Officer
I Pennington	- Audit Director - KPMG
K Evans	- Audit Manager - KPMG
M Arthur	- Assistant Audit Manager - KPMG
J Monks	- Democratic Services Officer - Committee

121 APOLOGIES FOR ABSENCE

Apologies were received from the following Members:-

Councillor D Buttle	- Holiday
Councillor M Wilkins	- Holiday
Councillor H Williams	- Work commitments

122 DECLARATIONS OF INTEREST

None.

123 PUBLIC MINUTES OF THE PREVIOUS MEETING

RESOLVED: That the public minutes of the meeting of the Audit Committee held on 5th August 2010 be approved as a true and accurate record.

124 FINAL STATEMENT OF ACCOUNTS 2009/10

The Chief Accountant introduced the report on the Council's final Statement of Accounts for 2009/10 and invited the Audit Director – KPMG and his team to update Members by way of a presentation on their main findings and to also summarise the audit work carried out in respect of the financial year 2009/10.

The Audit Director – KPMG informed the Committee that under the International Standard of Audit (ISA 260) and the Auditor General for Wales Code of Practice, the Authority's external auditors were required to report to the Audit Committee. A Letter of Representation, shown at Appendix 2 of the report, was also required by the External Audit Manager to complete the process to enable the accounts to be signed off. He explained that the Welsh Audit Office (WAO) had changed their way of working in that instead of the Authority receiving a letter from the external

auditors, for the first time an appropriate assessment of the significant estimates and judgements made by BCBC in the preparation of the accounting statements was carried out. He confirmed that his regulatory team were all independent of the Council and its Officers and in addition, he was not aware of any potential conflicts of interest. The full declaration of independence and objectivity was shown in Appendix E of the report.

He stated that in KPMG's opinion the financial statements and related notes for 2009/10 of the financial position of the Authority provided a fair and true view in accordance with relevant legal and regulatory requirements and he commented that Officers had taken a lot of care in order to get the accounts right which had clearly been demonstrated during the audit.

Assets and Liabilities

The Audit Director – KPMG advised that the assets of the Authority outweighed the liabilities, with the fixed assets increasing in the period 2009 to 2010. Pension liabilities had also increased during the last year, based on a series of assumptions which included interest rates, inflation growth and mortality rate. They had all worsened compared to last year which had caused the increase in the pension liabilities, and had become an issue for all local authorities. Although it was hoped the market would lift, there was still nevertheless a gap. The net worth bridge, which is the total assets of the Authority less the total liabilities, had gone down by £10m, with some assets increasing and some decreasing and the actuarial loss of £69m had impacted on the Pension Scheme.

Delegated Schools Budget

The schools' reserves budget had increased. It was explained that schools kept balances for a number of reasons. It was generally accepted as prudent financial management for schools to keep a reasonable level of balances but these should not be excessive. There is currently no stipulated limit on the amount which schools should hold but the Council does require schools to justify balances being held on an annual basis. It is also likely that regulations will be issued by the Welsh Assembly Government (WAG) in the future stipulating that the reserves should not go above £50k for primary schools and £100k for secondary schools. The Group Auditor advised that the principle is that schools balances are published annually and there was a principle to be questioned about whether schools should be spending money on the pupils now rather than on any long term investment.

Equal Pay/Job Evaluation

The Audit Manager – KPMG informed the Committee that there was now provision of £7.8m included in the accounts. She stressed that it was important to note that the provision was only an estimate based on information available at the time, and as yet the Council had not admitted liability for any equal pay claims. She advised that equal pay and job evaluation had been grouped together. She advised that an additional reserve of £5.5m had been allocated to any further equal pay/job evaluation costs, as well as any increase in pension contributions. The Chief Accountant advised that much more had been achieved with Job Evaluation during the last 12 months than the previous two years and good progress was being made, with consultation due to take place in the coming months.

Valuation of the Council's Assets

The Assistant Audit Manager – KPMG advised that the Authority's property portfolio had been revalued by an external valuer as at 1 April 2009 and agreed by the external auditors. She confirmed that the revaluation work had been processed correctly under the agreed treatment to SORP (Statement of Recommended Practice) which had complex rules over the treatment of revaluation movements.

Audit Adjustments

The Assistant Audit Manager - KPMG referred Members to Appendix B of the report and advised that there had been no adjustments that had impacted the Council Fund balance in the draft accounts at the beginning of the audit. There had been an audit adjustment downwards to deferred grant reserve, due to the revaluation of assets and the grant would need to be released in order to match the downwards valuation of £2.4m. Also an adjustment had been made to equal pay provision funded via the transfer from earmarked reserve based on a more reliable estimate, as information had not been available in time for completion of the draft accounts.

He then referred to Appendix C of the report and informed the Committee that there were some priority issues which the Authority might want to address, centred mainly on Human Resources (HR) and capital accounting:-

The first one related to HR and payroll, which had been raised by KPMG in previous years and found to still be an issue during this year's audit. There remained some issues in obtaining employee documents relating to contracts of employment for new starters and termination letters for leavers. It had improved on last year, although there was still lack of evidence of employee existence, which was partly due to contracts that were sometimes delayed in being returned from schools and in some cases, employees commencing work before signing an employment contract. The impact of this on the Authority was an increased risk of fraud and could lead to other issues such as data protection.

One Member commented that the Committee had previously requested an up to date report from HR. The Chief Internal Auditor advised that she had spoken with the Assistant Chief Executive – Corporate Development and Partnerships and a report was due to be submitted to the Committee at their October meeting. She also advised that a more detailed sample check on the HR records could be undertaken by Internal Audit if required.

In response to a question from Members the Assistant Audit Manager – KPMG advised that missing data was not exclusively school related, but across all the Authority.

The second priority issue related to the procedure for accounting capital which had become increasingly cumbersome and was only performed at year end, which increased the risk of error in this process. The Authority's current accounting of using spreadsheets was not effective and efficient due to the increased amounts of information required to be recorded for each asset following the recent changes to the SORP around revaluation accounting. He advised that the Chief Accountant was currently researching software packages to address this issue.

Use of Resources

The Audit Manager – KPMG informed the Committee that part of their remit was to ensure that the Authority had been efficient, effective and economic in its use of resources, and she reported that there had been overall improvements since 2008/09. There had been more alignment between Community Strategy and Directorate Business Plans which was encouraging, and the implementation of the Asset Management plan had a positive outcome on the way different buildings were managed, which should result in the Authority being able to make savings.

There were two areas noted for Improvement:-

- Ensure that no further delays would affect the job evaluation project, which is now scheduled to be completed in February 2011. The Chief Accountant had given encouraging feedback on this, but the recommendation was to make sure there was focus on it to ensure a conclusion as soon as possible.
- There was a need to complete and implement a more detailed and robust Medium Term Financial Strategy which would be a key document for the Authority to feed into future budgets.

Performance Indicators

The Audit Manager – KPMG advised that it was important that the right data was collected accurately and used to assist the Authority to improve where needed. She reported a reasonable standard of accuracy in performance indicators with a degree of improvement needed in some Directorates around reviews of the NSI calculations. The statutory audit resulted in three qualifications in 2009/10, increased from one qualification in 2008/09. The additional qualifications were the result of guidance issued in 2009/10. One qualification was still the same in the calculation of energy usage across the Authority; although this was currently being worked on, it was not something which could be corrected immediately. The other two qualifications were:-

- The technical requirement around data being collected relating to beach waste. The Authority did not believe that it was cost-effective to record beach waste separately given the low levels involved.
- The percentage of municipal waste composted or treated biologically in another way.

The Audit Manager – KPMG advised that the Authority had implemented the Ffynnon system to record its data, enabling the comparison of performance information across Wales, which she stated was a positive step in the use of performance data.

Post Balance Sheet Events

The Audit Director – KPMG informed the Committee that the Government had announced that future increases in public sector pensions would reflect movements in the Consumer Price Index (CPI) effective from April 2011, rather than the Retail Price Index (RPI). The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI is therefore expected to result in a reduction in the pension liabilities and therefore the pension deficit on the balance

sheet. The change will also impact upon the income and expenditure/profit and loss account over the next accounting year.

He concluded by saying that in terms of preparation of the accounts for the full year, it had gone really well as it had for the past four years. Management accounts could be done in a better way, but there was a cost involved in doing so which needed to be considered. Looking forward, the Medium Term Finance Strategy was crucial to aiding hard decisions which would need to be made and the impact of what those decisions would be. He added that Members should assist the Authority and Officers to achieve this.

- RESOLVED: (1) That the Committee noted the audited Statement of Accounts 2009/10, and
- (2) Noted and agreed the Final Letter of Representation by KPMG.

125 ROLE OF THE AUDIT COMMITTEE IN RESPECT OF RISK MANAGEMENT

The Risk Management and Insurance Officer presented a report outlining how the Committee could best achieve overseeing risk management within the Council, which was an essential part of the framework for ensuring good corporate governance.

CIPFA guidelines had recommended that Audit Committees should oversee the risk management strategy and consider its effectiveness within local authorities. As a result of the Chief Internal Auditor's report, the Committee agreed at its meeting on the 8th July 2010 to proposed amendments to its Terms of Reference (TOR) to include a requirement to monitor risk management and in particular, the Authority's annual Risk Assessment. The first draft of the Risk Assessment had been distributed to both the Wales Audit Office and KPMG, and the Risk Management and Insurance Officer was awaiting some initial feedback from them. Further work on the document would be required before being presented to the Corporate Management Board (CMB) for approval at the end of the month. It is proposed that the outcome of that risk assessment would be reported to the Committee before the end of the year.

The Risk Management and Insurance Officer advised that the risk assessment had identified approximately 12 top risks and the impact of those risks to the Authority, alongside the controls in place to manage them.

It is proposed that the Forward Work Programme of the Committee be updated to reflect the fact that the Committee should receive half-yearly risk management reports with the first of these being presented to the Committee in December, and the second reported in April. The Risk Management and Insurance Officer informed Members that in the April report he would also be updating the Committee on any claims against the Authority, as well as the insurance arrangements, as the policies are due for renewal at the end of March 2011.

- RESOLVED: That the Committee agreed to receive half-yearly risk management reports on the basis set out in the report.

126 INFORMATION AND ACTION REQUESTS BY COMMITTEE

The Chief Internal Auditor submitted a report summarising the action and requests made by the Committee which is a standing item on the agenda. The table attached to the report outlined the issues that had been picked up and she pointed out four outstanding items which she hoped to present at the Committee's meeting in October:-

- A report on procurement including the issue of Purchasing Cards.
- Presentation on the Internal Audit's Management Information System (APACE).
- A clear position statement from the Human Resources Department to ensure that the older personnel records are complete.
- The Anti-Fraud and Corruption Strategy to be updated by Internal Audit.

They congratulated the Chief Internal Auditor on her initiative in regularly reporting back to the Committee on actions and requests made by them.

RESOLVED: That the Committee noted the report.

127 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 16 of Part 4 of Schedule 12A of the said Act:-

Minute No. Summary of Item:

128 Confidential Minutes.