

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM 2/3,
CIVIC OFFICES, ANGEL STREET, BRIDGEND ON WEDNESDAY, 26 SEPTEMBER 2012
AT 2.00PM

Present:-

| <u>Councillors</u> | <u>Councillors</u> |
|--------------------|--------------------|
| G Davies | M Reeves |
| E Dodd | E Venables |
| C A Green | C Westwood |
| C Jones | H M Williams |
| J McCarthy | R E Young |
| C Rees | |

Officers:-

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| J Smith | - Head of Finance and Performance |
| M Williams | - Chief Accountant |
| H Smith | - Chief Internal Auditor |
| I Pennington | - Director - KPMG |
| M Arthur | - Assistant Audit Manager - KPMG |
| G Rustell | - Assistant Audit Manager - KPMG |
| G Jones | - Democratic Services Manager |
| L Griffiths | - Senior Lawyer – Corporate Team |
| R Ronan | - Democratic Services Officer - Committees |

1 ELECTION OF CHAIRPERSON

The Senior Lawyer – Corporate Team 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)

2 ELECTION OF VICE CHAIRPERSON

RESOLVED: That Councillor G Davies be elected Vice Chairperson of the Audit Committee for the Municipal Year.

3 APOLOGIES FOR ABSENCE

Apologies were received from the following Members:-

Councillor G W Davies - Holiday

4 DECLARATIONS OF INTEREST

None.

5 MINUTES OF THE PREVIOUS MEETING

RESOLVED: That the minutes of a meeting of the Audit Committee dated 25 April 2012 were approved as a true and accurate record.

6 ANNUAL GOVERNANCE STATEMENT 2011/12

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) for inclusion in the Council's Statement of Accounts for 2011/12. 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 Regulations also state that the AGS must be included in the Authority's Statement of Accounts.

The Head of Finance and Performance told Members that the Code of Governance is based upon 6 core principles which are taken from "The Good Governance Standard for Public Services" and have been adapted for local government; they are listed at item 4.1 of the report. She explained that it was practice for the AGS to be presented to the Audit Committee prior to inclusion in the Statement of Accounts. However, due to scheduling issues this has not been possible and the AGS is therefore already included in the Statement of Accounts.

The Head of Finance and Performance informed the Committee that good corporate governance underpins everything that we do and the AGS provides an overall assessment of the Council's Corporate Governance arrangements and an appraisal of the controls in place to manage the Council's key risks. It also identifies where improvements need to be made. The AGS is reviewed by Corporate Management Board and after approval by the Audit Committee is signed by the Leader of the Council and the Chief Executive.

A Member of the Committee commented that one of the Corporate Governance Principles is "focusing on people's needs and experiences, making the organisation's purpose the delivery of a high quality service". It also states that it means "looking after taxpayers' resources properly, and using them carefully to deliver high quality, efficient services". As one often conflicts with the other for example if consultation concludes that citizens favour retaining a service but budget restraints dictate otherwise the Member asked which one would take precedence. The Head of Finance and Performance said that the comment would be noted as it was important to constantly update and refine the Governance Statement to take such issues into account.

RESOLVED: That the Audit Committee

- Noted the Code of Corporate Governance (Appendix A)
- Reviewed the Annual Governance Statement (Appendix B) and approved its inclusion in the Statement of Accounts 2011/12

7 FINAL STATEMENT OF ACCOUNTS 2011/12

The Head of Finance and Performance introduced the report on the Council's final Statement of Accounts for 2011/12 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 2011/12.

The Audit Director – KPMG explained to the Committee that under the International Auditing Standards (ISA) 260, the External Auditor is required to communicate relevant matters relating to the audit of the financial statements to "those charged with governance". These matters are incorporated into the Audit of Financial Statements Report which is included as Appendix 3. He explained that as appointed auditor, Anthony Barrett of the Wales Audit Office is responsible for providing an opinion on whether the financial statements give a true and fair view on the financial position of Bridgend County Borough Council and its income and expenditure for the year. KPMG were engaged to carry out detailed work on the Audit and he told Members that they were independent of the Council and its Officers and were not aware of any potential conflicts of interest.

The Audit Director – KPMG told the Committee that the Finance team have produced a very good set of accounts and thanked them for their support. No significant difficulties were encountered during the audit and there were no significant matters discussed and corresponded upon with management which KPMG needed to report to the Committee.

The Audit Director – KPMG explained to Members that the overall financial position of the Council is more certain this year following the settling of the equal pay claims and the job evaluation exercise approaching completion. He explained that one of the key movements in Income and Expenditure is that pension liability has increased; this is however an issue that is common across local government.

The Assistant Audit Manager – KPMG briefed the Committee on the significant accounting matters. He explained that in terms of capital accounting the Council has purchased a new CIPFA fixed asset accounting module which improved the information provided for audit in this area.

The Assistant Audit Manager – KPMG told members that in relation to contract management KPMG reviewed the accounting treatment for the contract regarding the outsourcing of leisure services and can confirm that there are no significant costs incurred, leases created or assets purchased in advance as part of the contract. This issue will be revisited next year.

He explained to the Committee that the majority of equal pay claims have been paid and the remaining have had cheques written and issued post year-end. There was therefore little judgement required relating to this balance by the time of their audit.

KPMG checked to make sure that Council is recognising all its liabilities in relation to budgets and also the thoroughness and completeness of budgets. In response to previous concerns, detailed testing was carried out on budgetary controls over payroll costs. They were found to be operating effectively and record-keeping in regard to starters and leavers has improved although some missing documentation was still identified. A full internal audit report will be presented to the Committee at a future date.

The Assistant Audit Manager – KPMG explained that a potential fraud incident was reported to the Audit Committee during 2011 which raised concerns about purchasing and monitoring controls within one service area. KPMG in response to this risk performed specific CAATs' in order to identify other areas where there could be increased risk of similar potential frauds. The conclusion is that there are no issues identified that would have significant impact on the financial statements. There are however some potential issues relating to improvements in processes, review of old accounts and weaknesses in some systems, these are still being investigated and internal audit will present a detailed report to the Audit Committee at a later date.

The Assistant Audit Manager – KPMG said that KPMG looked to make sure that provision is set up and recognised by the Authority. There has been a contingent liability disclosed in the Council's accounts for several years which relates to Municipal Mutual Insurance (MMI), a company that provided insurance to Ogwr BC and Mid Glamorgan CC until 1992. The liability related to the Council being legally bound to pay a proportion of claims against MMI, should MMI become insolvent. The probability of insolvency has recently increased and the risk of claims from MMI should now be recognised as a provision within the Council's 2011/12 accounts. The Authority has already made the necessary adjustments.

He explained that KPMG report on any significant control deficiencies and during the audit identified two that were not deemed material but should be drawn to the attention of the Committee. These are detailed on p.15 of the Audit of Financial Statements Report and all the issues have been highlighted and accepted by management.

The Director – KPMG informed Members that in KPMG's opinion the financial statements and related notes for 2011/12 provided a true and fair view and once the letter of representation has been provided by Anthony Barrett an unqualified audit report on the financial statements will be issued.

A Member of the Committee asked if the audit opinion covers the written statement contained in the Statement of Accounts. The Director – KPMG said that it does not cover this statement, KPMG have however to have regard to the statement to ensure that it is reasonable.

A Member of the Committee directed Members to p.7 of the Statement of Accounts and the over spend in Adult Social Care, she asked if when an aging population was highlighted as a risk on p.20 were budgets not adjusted accordingly. She also raised concerns about the under spends in Special Needs and Mental Health. The Director – KPMG said that the Council's approach to risk management ensures that key risks are considered within the determination of Council priorities, targets and objectives and pressures on particular service areas were common across all local authorities. The Head of Finance and Performance explained that areas of concern would be looked at during the budget setting process for the ensuing year. She advised that detailed investigations as to over and under spends in particular areas would be questions that would be considered as part of the scrutiny function.

RESOLVED:

That Members:-

- Noted the audited Statement of Accounts 2011-12 (Appendix 1)

- Noted and agreed the Final Letter of Representation to KPMG and the Wales Audit Office (Appendix 2)
- Noted the Appointed Auditors Audit of Financial Statements Report (Appendix 3)

8 AUDIT COMMITTEE - CERTIFICATION OF GRANTS AND RETURNS 2010-11

The Chief Internal Auditor presented a report to the Committee the purpose of which is to present the Council's External Auditor's report on the grant work undertaken for 2010-11.

The Audit Director – KPMG explained that KPMG as appointed auditors of the Council, were asked on behalf of the Auditor General for Wales, to certify the larger grant claims made by the Council. For 2010/11 they audited 39 grant claims and returns and certified 38 grants claims and returns with a total value of £122m.

He told members that the aim of the exercise was to ensure that the money received has been spent correctly and to this end specific tests were carried out by KPMG on the data. The certification results are summarised at item 4.2.

The Audit Director – KPMG advised the Committee that overall KPMG concluded that the Council has good arrangements in place for the production and submission of its grant claims. There still remains some scope for improvement as set out in the "Recommendations" section of the attached report.

RESOLVED

That Members noted the content of the External Auditor's report on the grant work undertaken for 2010-11.

9 AUDIT COMMITTEE – FORWARD WORK PROGRAMME 2012-13

The Chief Internal Auditor presented a report to the Committee the purpose of which is to inform Members of the proposed 2012-2013 Forward Work Programme for the Audit Committee.

The Chief Internal Auditor explained to Members that Appendix A detailed the reports and dates on which they are scheduled to be presented to the Audit Committee. She assured the Committee that if a report was unable to be presented on the date indicated it would be rescheduled.

RESOLVED

That Members gave due consideration to the proposed 2012-13 forward work programme to ensure that all aspects of their core functions are being adequately reported.

The meeting closed at 3.00 pm.