

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM 2/3, CIVIC OFFICES, ANGEL STREET, BRIDGEND ON THURSDAY, 21 MARCH 2013 AT 2.00PM

Present:

Councillor E Dodd - Chairperson

<u>Councillor</u>	<u>Councillor</u>	<u>Councillor</u>
G Davies	C Jones	M Reeves
G W Davies MBE	J McCarthy	E Venables
C A Green	C Rees	C Westwood
		H M Williams

Lay Member: J Williams

Officers:

H Smith	-	Chief Internal Auditor
M Williams	-	Chief Accountant
D Gilbert	-	Audit Director - KPMG
M Arthur	-	Assistant Manager - KPMG
J Monks	-	Democratic Services Officer - Committees

The Chairperson welcomed those present to the meeting.

40 APOLOGIES FOR ABSENCE

None.

41 DECLARATIONS OF INTEREST

None.

42 MINUTES OF THE PREVIOUS MEETING

RESOLVED: That the minutes of a meeting of the Audit Committee held on the 23rd January, 2013 were approved as a true and accurate record.

43 PRESENTATION ON THE ANNUAL PLANNING PROCESS FOR INTERNAL AUDIT

The Chairperson welcomed to his first meeting, Darren Gilbert, the Audit Director – KPMG, who had taken up the role of engagement lead for the Authority from Ian Pennington.

The Chief Internal Auditor then gave a presentation to Members on the Internal Audit Shared Service (IASS) Audit Planning Process. The Committee had requested at an earlier meeting to be provided with more information so that Members could develop a greater understanding of the internal audit process.

The Chief Internal Auditor guided Members through the steps that had been taken in compiling its annual planning process for the Authority, which consisted of the following:

- Scope of Internal Audit Section's Work
- Key Core Deliverables for 2012/13

- Approach to Developing the Annual Audit Plan
- Step 1 – Understanding the Council
- Step 2 – Define the Audit Universe
- Step 3 – Assess the inherent risk
- Step 4 – Assess the strength of the control environment
- Step 5 – Calculate the audit risk
- Step 6 – Determine the annual audit plan

She explained that the most difficult part of the planning process was about understanding the structure throughout the Authority, what the main priorities and improvement objectives were, and the possible risks facing the delivery of services. This information is gleaned from the Corporate Plan; individual Directorate Business Plans and the Risk Register. She advised that they had to ensure that the Welfare Reform and the effects of the economic downturn were built into that planning process.

In order to ensure a robust risk based plan is prepared requires a great deal of knowledge and understanding of the organisation, this in part is attained through attendance at senior management meetings, reading Cabinet and Scrutiny reports and also the support from both Council Members and Senior Officers of the Authority, all of which provides an understanding of the strategic direction of the Authority, which was more complex due to the fact that Internal Audit now covers two local authorities with potentially different priorities. Finally, the Annual Audit Plan is reviewed by the Audit Committee to ensure that it is flexible and allows for a contingency to ensure that any possible unforeseen issues that may arise during the course of the year can be accommodated.

RESOLVED: That the Committee noted the Presentation.

44 AUDIT COMMITTEE – ANNUAL AUDIT LETTER

The Assistant Chief Executive – Performance submitted a report on the Appointed Auditor's Annual Audit Letter for noting.

The Assistant Manager – KPMG explained that the Appointed Auditor had a statutory responsibility under the Public Audit (Wales) Act 2004 to:

- Provide an audit opinion on the accounting statements.
- Review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Issue a certificate confirming that the Appointed Auditor had completed the audit of the accounts.

He advised that the Audit Letter, which was presented to the Leader in November 2012, had also commented on the progress being made on job evaluation and equal pay claims.

One Member asked why the Audit Letter had stated the financial audit fee for 2011-12 to be £197,500, instead of £179,000 as reported.

The Assistant Manager – KPMG explained that the amount had taken into account a fee of £7,500 for investigation last September, into a specific incident which had taken place within the Authority. He advised that the actual fee for 2012/13 had not yet been confirmed.

RESOLVED: That the Committee noted the content of the Appointed Auditor's Annual Letter.

45 EXTERNAL AUDIT – ANNUAL FINANCIAL AUDIT OUTLINE 2012-13

The Assistant Chief Executive – Performance submitted a report on the External Auditor's Annual Financial Audit Outline for 2012-13, which sets out the work to be undertaken by the Appointed Auditor at Bridgend County Borough Council under the Public Audit (Wales) Act 2004. The key elements of the audit engagement of the Appointed Auditor were outlined in Appendix 1 to the report.

The Audit Director – KPMG advised that the report provided the plans for the audit approach and was based on the Welsh Audit Office (WAO) template. The planned work would address identified risks, based on the information currently available. Changes to the Outline may be required if significant new risks emerged.

One Member referred to the financial systems risks and asked why the purchase of a new CIPFA fixed asset accounting module would not be able to fully capture certain complex sale and purchase transactions.

The Assistant Manager – KPMG explained that there were a few minor technical issues with the system, in terms of assets being partially sold, and some assets still in the possession of the Authority. However those specific transactions would be carefully considered in the process.

One Member asked whether there would be a stringent audit of the new external service providers Halo/GLL, and what the cost would be to the Authority.

The Chief Internal Auditor advised that it was in the annual plans for this year and Internal Audit had considered the contractual arrangements during last year's audit. She would report back to the Committee on the outcome of that audit. The Audit Director – KPMG added that the focus on their work centred on accounting applications for that particular scenario and would look to confirm that the accounting was in order.

One Member asked what reliance was placed on Internal Audit to manage risks and budget controls, and whether the financial team were challenged regarding their methods.

The Audit Director – KPMG advised that the External Auditors drew on Internal Audit work in two ways: Firstly, it assists them in reaching their own assessment process and provided an awareness of the risks as part of the Authority's wider arrangements. In terms of challenging the financial team, he advised that they would consider how the team managed risks and controlled budgets, parallel with value for money. Secondly, to establish whether there was a robust process in place to set a budget.

One Member referred to the quarterly budget reviews which the Committee received, and the fact that some Heads of Service would overrun on budget; the reason given being the demand on the service, e.g. the increase in the older population. He asked whether they examined that aspect of the budget setting process and the likelihood of demand for that service.

The Assistant Manager – KPMG explained that as part of the performance work carried out during last year, a study was undertaken on the budget setting process, which was contained in the annual improvement letter for that year. The Chief Accountant advised that at the year end, a process was in place to consider the budgets and any overspends for the previous year. Managers are then required to justify the reasons for any overspend, and that information is then reported back to the External Auditors for inclusion in their summary of the Statement of Accounts.

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The Audit Director – KPMG stressed that they placed a great deal of importance of budget monitoring and areas of risks were targeted.

One Member questioned the External Auditor's fee and asked how many hours had been provided by External Audit last year in support of the fee charged. The Audit Director – KPMG advised that this information was not to hand, however, a response would be provided. A Member of the Committee asked that the Chief Internal Auditor follow up on this and ensure that a response to this question is provided..

In response to a question from a Member, the Audit Director – KPMG explained that the template provided by the WAO was a tool to deliver consistency and some aspects of it were reasonably common, generic risks for all local authorities, and the headings were key elements of the audit. However, a number of them were specific to Bridgend, i.e. the leisure contract, as well as the accounting system which reflected the way the audit was delivered.

A Member referred to the main risks identified from the initial planning process and asked when that took place.

The Audit Director – KPMG advised that the preliminary process went from December through to January and nearer the time; the more detailed work is carried out. He added that it was continually visited and updated.

RESOLVED: That the Committee reviewed and noted the content of the report.

46 AUDIT COMMITTEE – FORWARD WORK PROGRAMME 2012-13

The Chief Internal Auditor provided an update on the Committee's Forward Work Programme for the financial year 2012-13. She advised that two items had been deferred to the May meeting of the Committee: 1) Governance in relation to the effectiveness of the Audit Committee and 2) Collaboration arrangements. She explained that with regard to the governance, as part of the process it was proposed to send a checklist questionnaire to Members of the Committee for their feedback. Members confirmed that they would be agreeable to completing a questionnaire. She asked Members to advise her of any issues which they considered should be included in future agendas for the Committee, or whether they felt that some issues were not being covered in enough depth, to indicate so in their response.

RESOLVED: That the Committee gave due consideration to the updated 2012-13 Forward Work Programme to ensure that all aspects of its core functions were being adequately reported.

47 INFORMATION AND ACTION REQUESTS BY COMMITTEE

The Chief Internal Auditor presented a report, the purpose of which was to summarise for Members actions and information requests made by the Audit Committee. She advised that the report on insurance risk has been scheduled to be presented to the Committee in May. A Governance Case Study, as given by KPMG in the previous term of office and day to day processes of Internal Audit would be included in the Forward Work Programme from May onwards. It was proposed that an audit area, picked from the Plan, would be presented to the Committee to consider how the process worked.

RESOLVED: That the Committee noted the report.

48 SELF-ASSESSMENT CHECKLIST – COMPLIANCE OF INTERNAL AUDIT TO THE STANDARDS CONTAINED WITHIN THE CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT IN THE UNITED KINGDOM 2006

The Chief Internal Auditor presented a report to inform the Committee of the findings of the Self-Assessment Checklist, which measures the compliance of Internal Audit to the Standards as contained within the Code of Practice for Internal Audit in Local Government. The compliance is an annual requirement for the Authority to meet the terms of the Chartered Institute of Public Finance and Accountancy (CIPFA) standards. She advised that Appendix A to the report provided the background to each standard listed, with a synopsis of evidence based points to show that Internal Audit was in compliance with those standards. She was pleased to report that the Internal Audit Shared Service was 100% compliant.

In response to a question from Members, she advised that the annual reviews and appraisals of staff had now all been completed and were now carried out on a six monthly basis.

One Member asked what response was received from clients, given that some were sensitive.

The Chief Internal Auditor explained that responses through the Client Satisfaction Surveys were always extremely positive, but the problem was in getting those responses back, and a great deal of time was spent following them up in order to monitor performance. She advised that schools were quite slow to respond, but there was a mechanism in place to chase them up. She hoped to include this in the Annual Information Report.

RESOLVED: That the Committee received and considered the results of the Self-Assessment Checklist and the overall compliance of the Section with the Code of Practice.

49 INTERNAL AUDIT SHARED SERVICE CHARTER 2013-14

The Chief Internal Auditor presented a report on the Council's proposed Internal Audit shared Service Charter for 2013/14, attached at Appendix A to the report. As of the 1st April 2013, the Public Sector Internal Audit Standards (PSIAS) are due to come into force and will supersede the Chartered institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Auditors. The new standards bring in new mandatory requirements and the key areas were summarised at paragraph 4 of the report.

The Chief Internal Auditor informed Members that in May 2011 the Authority, with the Vale of Glamorgan Council, set up an informal internal audit shared service; prior to that her role of Chief Internal Auditor was shared between the two authorities. As of the 1st March 2013, the internal audit shared service became a formal arrangement, and staff moved across to the Vale of Glamorgan Council, to provide an Internal Audit Shared Service, under Section 101 of the Finance Act 2009. Only four members of staff had been transferred from Bridgend to the Vale of Glamorgan. She advised that the Head of Finance and Performance would report in more detail on the shared service arrangement in due course.

In response to a question from Members, the Chief Internal Auditor explained that the external assessments in accordance with the Standards are required to be undertaken once every five years.

Referring to set targets, detailed under paragraph 4.8 of the Charter, one Member asked why only 89% of all audits were completed within the planned time.

The Chief Internal Auditor explained that the benchmarking had indicated that it runs around 85-86%. The target for last year was 87% and 87.9% was actually achieved.

RESOLVED: That the Committee reviewed, considered and approved the Internal Audit Shared Service Charter for 2013-14 as outlined in the report.

50 **DRAFT INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN APRIL 2013 TO MARCH 2014**

The Chief Internal Auditor presented a report on the Council's draft Internal Audit Strategy and draft Annual Audit Plan for the year April 2013 to March 2014, and advised that the reports would remain in draft form until completion of the consultation process with Directors and Heads of Service. She commented that it had been a long process this year as a result of the work being cut across the two local authorities, i.e. Bridgend and the Vale of Glamorgan Councils.

She informed Members that a staff training course on standards had taken place last Tuesday, and as a result of staff putting forward some good ideas on the Mission Statement, it was likely to be changed. Table 1, page 6 of Appendix A detailed the number of productive days for each audit function, which included contingency within the Plan for fraud and corruption. There would also be flexibility built into the Plan to address any changes which may occur during the year, as well as 160 days for unplanned and reactive work. In the event of there being no unplanned work, those days would be utilised elsewhere.

She explained that the Audit Plan had been based on 1,374 productive days, which equated to 8.5 members of staff, and the strategy which was similar in content to last year, was attached at Appendix A. She advised that the Audit Plan was the most important document as set out in Appendix B, listing all the intended work over the coming year; split by Directorates. As always core financial systems will be reviewed and audit will have regard to the impact of Welfare Reform, which would be built into the audit brief, as well as the scope of work to look at the impact on the Council Tax Reduction Scheme and Benefits Administration. The delivery of savings and monitoring arrangements was linked to the improvements objectives, to ensure efficient and effective use of finances, technology and human resources. Internal Audit would look at the way savings were being achieved and implemented, and the impact of having to achieve those savings across the Directorates, which links into the Medium Financial Plan. The detail content of the plan of work has been linked across the board to the Risk Register.

One Member referred to the reduction in the number of projected productive audit days for 2013/14, which amounted to 101 less days and asked whether this would pose a risk to the Authority.

The Chief Internal Auditor explained that during 2011/12 the audit plan presented to the Committee at that time, indicated the number of productive days over a nine month period instead of 12, in order to bring it into line with the financial year, as previously the audit year had run from July to June annually. During the last full financial year 2012/13, the plan was to achieve 1,475 days based on the outturn report, and up until the end of February, the plan was on track to achieve 1,320; which was still a shortfall.

She explained that in May 2011, there were nine full time staff employed at Bridgend, plus two vacant posts and the plan had been based on those staff numbers at the time. By the end of 2012 the number of staff working from Bridgend was down to four and audit staff based in the Vale of Glamorgan Council made up the shortfall in the number of productive days provided. As far as 1,374 productive days going forward, that figure had been based on

the current resources available, and would be sufficient to provide the coverage necessary to review the high risk areas.

In response to a question from Members, she advised that there were still three vacant posts within the internal audit shared service structure, which had been advertised this week, and it was hoped to recruit three auditors to the section over the next month. She expected a good response, based on 60 quality applications that were received last time they recruited.

RESOLVED: That the Committee considered and approved the draft Internal Audit Strategy and draft Annual Audit Plan for 2013-14 as outlined in the report.

51 **AUDIT COMMITTEE PROPOSED FORWARD WORK PROGRAMME**

The Chief Internal Auditor presented a report for the approval of the proposed Forward Work Programme for 2013-2014 attached at Appendix A to the report.

RESOLVED: The Committee considered and approved the Forward Work Programme.

52 **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 items of business because of the likelihood that, if members of the public were present during this item there would be disclosure to them of exempt information of the description specified in paragraph 18 of Part 4 of Schedule 12A and paragraph 21 of part 5 of Schedule 12A of the said Act:

<u>Minute No:</u>	<u>Summary of Item:</u>
53	Confidential minutes of the previous meeting of the Audit Committee dated the 23 rd January 2013.