

**AUDIT COMMITTEE - THURSDAY, 29 SEPTEMBER 2016**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3, CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 29 SEPTEMBER 2016 AT 10.00 AM**

Present

Councillor E Dodd – Chairperson

JE Lewis  
RE Young

C Westwood

DK Edwards

CA Green

Lay Member:

Mrs J Williams

Officers:

Emma Samways	Group Auditor
Nigel Smith	Finance Manager
Mary Williams	Chief Accountant
Roger Martin	Insurance and Risk Officer
Randal Hemingway	Head of Finance & Section 151 Officer
Mark Galvin	Senior Democratic Services Officer - Committees

266. APOLOGIES FOR ABSENCE

Apologies for absence were received from the following Members:-

Councillor GW Davies MBE  
Councillor G Davies  
Councillor CL Jones

267. DECLARATIONS OF INTEREST

Councillor DK Edwards declared a personal interest in a number of Agenda items where reference was made to Maesteg Comprehensive School, in that he was Chairperson of the Board of Governors at the School

268. APPROVAL OF MINUTES

RESOLVED: That the Minutes of a meeting of the Audit Committee dated 30 June 2016 be approved as a true and accurate record, subject to J Williams being added to the list of attendees at the meeting.

269. FINAL STATEMENT OF ACCOUNTS 2015-16

The Section 151 Officer submitted a report the purpose of which, was to present the final Statement of Accounts for 2015-16 which was now due to be signed off by the Council's external auditors, Wales Audit Office (WAO), the associated Letter of Representation of the Council and the final audited Return for the Harbour Authority.

After a brief introduction to the report by the Head of Finance and Section 151 Officer, Mr Owen from the Wales Audit advised by way of background information, that the unaudited Statement of Accounts for the above period was presented to the Audit

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Committee on 30 June 2016 for noting and had been signed by the responsible financial officer on 16 June 2016. During the intervening period, the external audit had taken place, resulting in a number of amendments being made to the financial statements.

The audited Statement of Accounts 2015-16 was attached at Appendix A to the report, and this presented a true and fair view of the financial position of the Council as at 31 March 2016, by 30 September 2016 he advised.

Mr Owen referred to page 156/7 of the report which outlined the role of the Auditor General, and in terms of any significant issues arising from the audit, he confirmed that there were no uncorrected misstatements identified in the financial which remained uncorrected. He added however, that there were a number of misstatements some of which were material, that had been corrected by management, but which the Wales Audit Office felt should be drawn to the attention of the local authority. This was due to their relevance to its responsibilities over the financial reporting process. These were highlighted (together with explanations) in Appendix 3 of the report. Page 157 of the report also detailed other significant issues arising from the audit, however, Mr Owen confirmed that no major concerns had been raised overall as a result of the audit.

Appendix B to the report showed the Final Letter of Representation which was required by the Appointed Auditor to complete the process and enable the accounts to be signed off.

Paragraph 4.12 of the report confirmed that under International Auditing Standards (ISA) 260, the External Auditor was required to communicate relevant matters relating to the audit of the financial statements to "those charged with governance". These matters were incorporated into the Audit of Financial Statements Report, which was attached at Appendix C to the report.

The remaining sections of the Statement of Accounts contained the Annual Return for the Porthcawl Harbour Authority (Appendix D), whilst Appendix E contained the audit letter that confirmed that there have been no adjustments to the draft return presented to the Audit Committee last June. The Audit Committee were required to approve the Annual Return.

The Lay Member asked whether the underspend on services of £1.639m, irrespective of the post audit grant adjustments, went towards the future savings needed within the MTFS and when would the historic grant balances as a result of the creditors review be spent. The Head of Finance and Section 151 Officer explained that the underspend on services meant that earmarked reserves were able to be created that could be used to support the transformation needed to deliver future savings or protect the Council against known risks, but would not directly go against the savings figures as the underspend is a one off amount. A Member further asked about the historic grant balances and whether there were any terms and conditions that meant that these should be spent within certain service areas. The Chief Accountant stated that a full analysis of the historic balances had been undertaken with the external auditors. Where any terms and conditions hadn't been met or that the grant might need to be repaid these remained within Creditors. The balances that had been unwound included £876,000 for Wellbeing Projects, which would have come mainly from the Local Health Board and which will still be used within the specific service area, Highways Commuted Sums of £692,000 which will be incorporated for use within the Highways Business Plan, and £488,000 for Housing Benefit Administration. She explained that the Housing Benefit balance was an allocation of funding for the Housing Benefits team that has built up over a number of years. It had not been fully needed due to sufficient budget within the area, so the balance will be used for a combination of Welfare Reform and Service reconfiguration. The Head of Finance and Section 151 Officer stated that all the new Earmarked

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Reserves that have been created from historic balances will be used over a period of 1 to 3 years. The Chief Accountant stated that the process would be a lot more transparent, as all earmarked reserves are monitored and reported to Cabinet at periods 6, 9 and 12.

RESOLVED: That the Audit Committee:-

- (1) Approved the audited Statement of Accounts 2015-16 (Appendix A to the report).
- (2) Noted and agreed the Final Letter of Representation to the Wales Audit Office (Appendix B).
- (3) Noted the Appointed Auditors' Audit of Financial Statements Report (Appendix C).
- (4) Approved the Annual Return for the Harbour Authority (Appendix D) and note the audit opinion (Appendix E).

### 270. THE CORPORATE RISK ASSESSMENT 2016-17

The Head of Finance submitted a report the purpose of which, was to inform Members of amendments to the 2016-17 Corporate Risk Assessment (CRA) which have arisen out of the review undertaken in July 2016.

The Insurance and Risk Officer advised that the CRA was considered by both the Audit Committee on 28 January and Council on 10 March 2016

It was aligned with the Corporate Plan and MTFs, and at the request of the Audit Committee a version of the Risk Assessment attached at Appendix 2 of the report was produced, which footnotes the links to the Corporate Plan.

The Risk Assessment (Appendix 1 to the report) was subject to review, and part of the document included the outcome of such review that was reported to Senior Management Team in July 2016. It is being reviewed again in October the Insurance and Risk Officer advised, and work on the 2017-18 Risk Assessment will commence at the end of the year and be reported to the Audit Committee in January 2017.

He proceeded by confirming that last January the Audit Committee requested that BCBC links in with other South Wales local authorities to see what risks they had on their assessment. This task had been undertaken, and the Welsh Language Standards risk was also added, together with comments in respect of digital transformation and the Local Development Plan (LDP) also being included.

The Insurance and Risk Officer then outlined the principal changes made in respect of the CRA that were implemented in July 2016, as follows:-

- Making the cultural change necessary to deliver the MTFs;
- Supporting Vulnerable Adults;
- Supporting Vulnerable Children, Young People and their Families;
- Welfare Reform;
- Local Government Reorganisation;
- The Economic Climate and Austerity;
- Disposing of Waste;
- Equal Pay;
- Healthy Lifestyles;
- Maintaining Infrastructure;
- Educational provision;

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- The Impact of Homelessness;
- Ineffective Collaboration with Partners;
- Educational Attainment;
- Health and Safety;
- School Modernisation; and
- Welsh Language Standards

A Member referred to page 195 of the report and the Risk Description, Community Care Information System (WCCIS), and the potential challenges as the system is rolled out to other authorities. She noted that BCBC were the lead Authority and asked how the rollout was progressing, and how many other authorities this had currently been rolled out to.

The Head of Finance and Section 151 Officer confirmed that the information in the report was effectively a month out of date, but as far as he was aware as well as BCBC, Ceredigion Council had gone live and Powys were about to also. He added that a considerable number of authorities had given a commitment to the system with the provider ie about half of those in Wales, though the sign-up process rate was fairly slow, including Health Boards such as the ABMU. Until the ABMU did sign-up stated the Head of Finance and Section 151 Officer, BCBC would not realise the benefits of the scheme to their optimum. He further added that there would be a more effective method of information sharing between those authorities that signed up to the scheme.

A Member referred to page 234 of the CRA and the Risk Description headed Health and Safety and felt that the Inherent Risk Score totalling 24 seemed fairly high. He had some concerns with this, as organisations were subjected to heavy fines if they breached health and safety regulations.

The Insurance and Risk Officer confirmed that this risk score was the highest in the Authority, and this was due to the fact that breaches of health and safety worse case scenario, could result in employee injuries including death. In the unlikely event of this occurring, the organisation if found liable, would face significant financial penalties. Realistically however, this was just a potential risk that normally did not occur with any significant consequences. The score had to be elevated though in case a 'bad' health and safety breach did unfortunately take place. As the Committee had previously requested, the Insurance and Risk Officer confirmed that he had some comparative information from 6 neighbouring local authorities in respect of this Inherent Risk, and would provide this to Members outside of the meeting.

A Member thanked the Insurance and Risk Officer for his report. She asked however, if future reports could contain further information, for example such as any Inherent Risks that were increasing that were included in the main Risk Assessment document, as well as possibly a narrative as to how actions that the Council take in respect of risks reduce the level of any such risks arising.

The Insurance and Risk Officer advised that he would consider putting further explanatory information in future such reports. He added however, that the risk scores for the main various risks of the Council reflected as accurately as possible the level of those particular risks.

RESOLVED: That Members considered the changes made to the Corporate Risk Assessment, and that a further report be presented to the Committee in January 2017, concerning the 2016-17 Corporate Risk Assessment and review of the Risk Management Policy.

271. INFORMATION AND REQUESTS BY COMMITTEE

The Chief Internal Auditor submitted a report, which summarised for Members the actions and information requests made by the Audit Committee at its last meeting on 30 June 2016.

The Group Auditor confirmed that a summary of the actions and information provided, was detailed in paragraph 4.1 of the report.

In terms of the current status of each of these, she advised that the first two Action Requests in respect of Risk Management and Residual Risk Scores, these had now been completed. The issue relating to the Porthcawl Harbour Project had also been completed she added. With regard to a question relating to the high percentage of savings achieved in Legal and Regulatory Services (now part of the Operational and Partnership Services Directorate), the Group Auditor confirmed that a report on this matter would be presented to Committee at its November meeting.

A Member asked in respect of the Porthcawl Harbour Project, if the cost of the works in respect of this project had included the dredging of the harbour area.

The Chief Accountant confirmed that the dredging works had been authorised and executed by way of a delegated power but that in all probability, this was part of added costs to the project. She advised that this cost had been jointly funded through contingency funding and earmarked reserves. She added that she would find the cost of these dredging works and pass this on to Committee Members.

RESOLVED: That the Committee noted the report.

272. INTERNAL AUDIT OUTTURN REPORT APRIL TO AUGUST 2016

The Group Auditor submitted a report, the purpose of which, was to inform the Committee of actual Internal Audit performance against the five months of the audit plan year covering April and August 2016.

Paragraph 4.1 of the report showed in tabular form, an analysis of productive days achieved against the plan for the first two months of this financial year. A more detailed analysis as extracted from the Internal Audit Shared Service management information system was shown at Appendix A to the report.

Page 249 once more included a Table (numbered 1) which detailed productive outturn for the period April 2016 to August 2016. The Group Auditor advised that as could be seen from the table, the actual outturn for the period shown, confirmed that the number of productive days expected to be achieved had been slightly exceeded by 9 productive days. The table further confirmed that the proportion of productive days achieved, varied from that expected by Directorate activity.

A total of 10 reviews had been completed, 8 (80%) of which had been closed with either a substantial or reasonable assurance opinion level. 1 review had identified weaknesses in the overall control environmental, and this was in the area of Bus Services Support Grant.

The Group Auditor confirmed that page 248 of the report, confirmed that there were now 6 (and not 4) vacant posts in the Internal Audit Division, and a job advertisement was issued yesterday. The Chief Internal Auditor was looking to recruit two posts (rather than 1 as confirmed in the report), and an update on the recruitment exercise would be given

as to how this went at the next scheduled Committee meeting. Staff vacancies in the Section it was considered, had meant that the full year plan days of 1,053 for audits carried out in 2016-17 would be exceeded if no appointment of new staff was made.

Page 251 of the report clarified that there were only a relatively few recommendations made by Internal Auditors outstanding, as a result of audits undertaken. The 8 recommendations overdue were being monitored in terms of their implementation.

The Group Auditor then referred to page 256 of the report, which detailed the level of performance of Internal Audit in comparison with certain other neighbouring local authorities that submitted the data. Overall this information reflected well in relation to those authorities that had submitted similar information in the form of comparative data.

A Member asked the Officer how many posts existed in Internal Audit ie on the current structure.

The Group Auditor confirmed that there were a total of 18 posts on the structure, but only 12 of these were presently occupied by staff. A recruitment exercise was required, as in order to reach performance levels anticipated a minimum of 14 staff were required as part of the establishment.

Unfortunately concluded the Group Auditor, recruitment and retention of Internal Audit staff was an historical problem for local authorities.

RESOLVED: That Members gave due consideration to the Internal Audit Outturn Report covering the period April to August 2016, to ensure that all aspects of their core functions are being adequately reported.

273. COMPLETED AUDITS

The Chief Internal Auditor submitted a report, that summarised for Members the findings of the audits recently completed by the Internal Audit Shared Service.

The Group Auditor stated that details of these were contained in Appendix A to the report, and were undertaken in the following service areas. This was followed by an Audit Opinion on each of the audits carried out (see below), together with some key messages upon which the Group Auditor gave a resume:-

1. Business Support Services - Reasonable Opinion
2. Council Tax – Reasonable Opinion
3. Highways Network Asset Valuations – Reasonable Opinion
4. NNDR (Refunds) – Substantial Opinion
5. Creditors – Substantial Opinion
6. Occupational Therapy (including minor adaptations) – Reasonable Opinion
7. Bus Services Support Grant – Limited Opinion
8. Performance Indicators – Reasonable Opinion
9. Cash Handling and Stock Control – Reasonable Opinion

A Member asked the Group Auditor to expand upon the problems that had resulted in the Limited Opinion in respect of Completed Audit 7. above.

The Group Auditor advised that the figures submitted as part of data collation were being done by employees weekly, then monthly and finally quarterly, and there were instances when the data calculated was corrupting on the system. A new spreadsheet had therefore been devised, and this was now being completed consistently on a

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monthly basis. There had also been occasions arising, whereby the person(s) inputting the information were making typographical errors, and this resulted in incorrect figure work being supplied as part of the data. Internal Audit therefore suggested that a second person checked the information before it was submitted, hence minimising claim errors. She was pleased to say that the process was working more effectively now since the double checking process had been in place.

A Member noted that the audit carried out on Business Support Services had taken 50 days to complete, which was a considerable length of time when compared to the other audits listed in Appendix A to the report.

The Group Auditor confirmed that the audit of this work area had been carried forward from 2015-16 to the current year, which contributed to the delay in the completion of the audit. The audit was also very complex, and this also extended the time taken to complete it, as did the fact that as oppose to two trained Auditors carrying out the audit, this only involved one experienced Auditor together with a trainee who was being trained on how to conduct audits. She added that the delay in taking to complete this audit, added pressure to other audits earmarked to be undertaken in 2016-17. However, the section had extra contingency days to use in order to complete timetabled audits in the prescribed period within which to do so.

RESOLVED: That Members considered the summary of completed audits in order to ensure that all aspects of their core functions are being adequately reported.

### 274. AMENDMENTS TO KEY AUDIT DOCUMENTS

The Group Auditor presented a report which summarised for Members, changes that had been made to a number of key documents used by the Internal Audit Shared Service.

By way of background information, she confirmed that the Service has a number of key policy documents that are utilised to ensure the efficient and effective running of the department. A requirement under the Public Sector Internal Audit Standards is that all key documents are reviewed and updated as necessary on a periodic basis.

The Group Auditor went on to advise that following a review of the Service Manual, it had been established that a number of the associated appendices have been updated, and therefore, copies of the revised documents were contained in Appendix A – C of the report.

Parts of the Manual that needed to be modified in some way or another, covered areas such as the Charter, Code of Ethics, and Quality Assurance and Performance Management.

The Group Auditor further added that on an annual basis, the terms of reference of the Audit Committee (Appendix D) were required to be examined in order to establish if these required any amendment or updating. However, the Group Auditor confirmed that this year it had been agreed that any such amendment was not required.

The Group Auditor then gave a resume of the amendments to the key

### 275. UPDATED FORWARD WORK PROGRAMME 2016 - 2017

The Group Auditor presented a report, that contained an update for Members on the 2016-17 Forward Work Programme (FWP) for the Committees information.

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She stated that in order to assist the Committee in ensuring that due consideration is given by it to all aspects of their core functions, an updated FWP was attached at Appendix A to the report, which covered the above period.

The Group Auditor stated that the item entitled Corporate Risk Assessment 2016-17 earmarked for consideration at the meeting scheduled to be held on 26 January 2017, should read Corporate Risk Assessment 2017-18.

RESOLVED: That Members noted the updated FWP to ensure that all aspects of their core functions are being adequately reported.

276. URGENT ITEMS

None.

The meeting closed at 11.55 am