

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM 2/3,  
CIVIC OFFICES, ANGEL STREET, BRIDGEND ON THURSDAY, 25 SEPTEMBER 2014 AT  
2.00PM

Present:

<u>Councillors</u>	<u>Councillors</u>	<u>Councillors</u>	<u>Councillors</u>
G Davies	C A Green	J R McCarthy	H M Williams
G W Davies MBE	R C Jones	M Reeves	R E Young
E M Dodd	J E Lewis	C Westwood	

Co-opted Member: Mrs J Williams

Officers:

N Young	-	Corporate Director – Resources and Section 151 Officer
G Lewis	-	Deputy Section 151 Officer
H Smith	-	Chief Internal Auditor
E Samways	-	Group Auditor
M Williams	-	Chief Accountant
K Price	-	Finance Manager – Financial Control
M Arthur	-	Manager - KPMG
D Gilbert	-	Director - KPMG
S Barratt	-	Appointed Auditor - Wales Audit Office
J Monks	-	Democratic Services Officer - Committees

132 ELECTION OF CHAIRPERSON

RESOLVED: That Councillor E M Dodd was elected Chairperson of the Audit Committee.

Councillor Dodd then took the Chair.

133 ELECTION OF VICE-CHAIRPERSON

RESOLVED: That the Committee agreed to appoint Councillor G Davies as Vice-Chairperson of the Audit Committee.

134 APOLOGIES FOR ABSENCE

Apologies were received from Councillor D K Edwards who was on holiday.

135 DECLARATIONS OF INTEREST

None.

136 MINUTES OF PREVIOUS MEETINGS

RESOLVED: That the minutes of a meeting of the Audit Committee held on the 18<sup>th</sup> June 2014 were approved as a true and accurate record.

137 WALES AUDIT OFFICE PERFORMANCE WORK 2014/15

The Corporate Director - Resources presented a report to submit the Appointed Auditor's Annual Letter in respect of the audit performance work and associated fees for 2014/15, attached at Appendix A to the report, and also an update on the current status of the planned

work, attached at Appendix B. The Appointed Auditor - WAO informed the Committee that his office was responsible for the Performance Audit Programme at Bridgend, which is undertaken jointly with KPMG, which was a Standard Regulatory Programme.

In response to a question, the WAO Auditor informed the Committee that there had been a reduction in the fee since last year as a result of the Audit General undergoing a restructure. It was found that of the three Bands, Bridgend was currently in the minimum performance Band owing to the nature of the risk facing the Council going out to consultation for fees for next year. He advised that the Audit General was mindful of the financial situation all local authorities were facing.

RESOLVED: That the Committee gave due consideration to the attached documents to the report to ensure that all aspects of their core functions were being adequately reported.

138 AUDITED STATEMENT OF ACCOUNTS 2013-14

The Section 151 Officer submitted a report to present the final Statement of Accounts for 2013-14 attached at appendix A to the report, which were due to be signed off by the external auditors, and associated Letter of Representation of the Council.

The Audit Manager - KPMG took Members through the Audit of Financial Statements report, which sets out the issues that the external auditors are required to report on, and summarises the outcomes of work and areas which require attention by the Authority.

He explained that the audit had gone smoothly, with good support from Officers in the Finance Department who produced a good, accurate set of accounts. He explained that it was not KPMG's role to sign off the Financial Statement, but to recommend to the WAO, and they had recommended an unqualified positive outcome. He advised that a couple of issues were highlighted, requiring some adjustments that had now been incorporated into the audited statement. They had also made two recommendations, which had been positively responded to by BCBC officers. He informed the Committee that the report had not included financial statements for County Borough Supplies and Coychurch Crematorium which were audited separately.

The Committee congratulated the finance team on their unqualified reports and the Deputy Section 151 Officer formally thanked KPMG for their professionalism and hard work in completing the Statement of Accounts on behalf of the Authority.

The Finance Manager explained that his Team was responsible for producing a Statement of Accounts on behalf of the Authority to comply with both Statutory Regulations and proper Accounting practice, in order to present a true and fair view of both income and expenditure for the financial year ending 31 March 2014, and the balances and reserves of the Council as at 31 March 2014. The Council Fund balance itself had risen from £7.320m on the 31<sup>st</sup> March 2013 to £7.395 as at 31<sup>st</sup> March 2014.

He explained that it was a requirement to also recognise the impact that transactions had on the Authority's general fund and Council Fund, which required the production of supporting information to illustrate how the published Accounts reconciled to the Council's outturn position.

One Member asked for an explanation as to why in 2013 there was a deficit as opposed to a surplus of over £91m in this financial year

This was explained to be largely due to a gain on the Authority's pension fund for 2013-14, calculated by an independent Actuary.

A Member asked for details of the Escrow account.

The Chief Accountant explained that the Escrow account related to the Asda development in Bridgend town centre where Bridgend Town Football Club was required to move out of their Coychurch Road site. A planning condition attached to this move was that a sum of money be held by the Authority in an Escrow account on behalf of the club for a period of five years, to enable the Club to secure a replacement site and facilities within the Borough. Recent activity has occurred where Bryntirion Football Clubs had merged with Bridgend FC and work had now commenced on two new pitches in Bryntirion and the Pencoed Campus in Bridgend College.

Another Member requested detailed information on the dispute between the Authority and the Contractor over the final costs of the Bridgend Resource Centre's capital contract.

The Finance Manager confirmed that the dispute was ongoing. The Deputy Section 151 Officer confirmed that she would report back to the Committee on the findings of the case.

RESOLVED: That the Committee:

- Approved the audited Statement of Accounts 2013-14;
- Noted and agreed the Final Letter of Representation to the Wales Audit Office;
- Noted the Appointed Auditor's Audit of Financial Statements Report.

#### 139 TREASURY MANAGEMENT REPORT

The Chief Accountant presented a report to update the Committee on the outturn position for Treasury Management activities, Treasury Management and prudential Indicators for 2013-14 and to highlight compliance with the Council's policies and practices prior to them being reported to Cabinet and Council.

She advised that the Council had complied with its legislative and regulatory requirements with full Council approval for the financial year 2013/14 as part of the Medium Term Financial Strategy (MTFS). Council also approved the Half Year report in November 2013, and Quarterly Monitoring reports had also been approved by Cabinet. She informed Members that the Authority hadn't undertaken long or short term borrowings during this period, due to the Councils' reserves and balances, nor had there been any debt rescheduling. There were favourable cash flows during the year, which meant that on the balance sheet dated 31<sup>st</sup> March 2014 investments totalled £10.5m with an average interest rate of 0.59%, which was an improvement on 0.51% at the beginning of the year. The bank base rate currently stood at 0.5%, which indicates that returns generated were in excess of this..

She continued by informing the Committee that the Council was in the process of retendering for its banking services following the Co-operative Bank's withdrawal from the Local Government market, and the new banking contract would be in place from the 1<sup>st</sup> January 2015.

Finally, she advised the Committee that the Treasury Management function for 2013-14 had been reviewed by both Internal and External Audit; and Internal Audit had issued an audit opinion of 'substantial assurance' with no control weaknesses identified, or recommendations made.

One Member asked whether it was unusual not to have short term borrowing.

The Chief Accountant explained that it was not unusual given the way the Authority manages its finances, and given the fact that it was 'cash rich' during this period. The Authority, had in effect, borrowed from its own internal reserves. However, she stressed that it would likely reach the stage where the Authority would eventually be required to borrow as usable reserves diminish, which was a familiar position with local authorities throughout Wales.

A Member drew attention to the table shown at Appendix A, on page 170 of the report, and requested an explanation to the net debt which had increased by £0.48m, against the investment which had decreased by £5.2m.

The Finance Manager explained that the gross debt position as at the 31<sup>st</sup> March 2014 was £118m, which had only marginally changed from last year. The Chief Accountant explained that the reason for the increase in long term liabilities was the result of work on the HALO contract which was part way through the financial year 2013/14, and completion of the capital works on the Bridgend Recreation Centre. The Finance Manager added that the main reason for the Net Debt variance was a reduction in variable rate investments. This would simply have reflected the cash the Authority had at 31 March 2014, which had reduced by £5.2m from 31 March 2013.

RESOLVED: That the Committee noted the Annual Treasury Management activities for 2013-14.

#### 140 INFORMATION AND ACTION REQUESTS

The Chief Internal Auditor welcomed the Corporate Director – Resources to the meeting, on her phased return to work.

The Chief Internal Auditor presented a report, the purpose of which was to summarise for Members the actions and information requests made by the Audit Committee. A summary of actions and information provided was contained in the table shown at paragraph 4.1 of the report and she confirmed that there were no outstanding requests.

The Deputy Section 151 Officer explained that she had been employed in her role since July this year, following a quick response to the Audit Committee's concern over the statutory obligations of the Section 151 Officer being fulfilled, in the absence of the Corporate Director – Resources, whose role also covered that of the Section 151 Officer. She commented that she had agreed with the Committee's decision to send a letter to the Chief Executive expressing its concerns, as it was a proper governance issue. She informed Members that there had been discussions with the Legal Department regarding the Section 151 Officer title role, which was appointed by Council, and the Corporate Director - Resources still held the title, albeit that she could not currently fully undertake those functions. She advised that even though she was appointed Deputy Section 151 Officer, she was still legally able to undertake the functions of the Section 151 Officer and was committed to continue carrying out those responsibilities until such time as the Section 151 Officer fully resumed her duties.

RESOLVED: That the Committee noted the report.

#### 141 COMPLETED AUDITS

The Chief Internal Auditor introduced a report, the purpose of which was to summarise for Members the findings of the audits completed by the Internal Audit Shared Service. Appendix B summarised those finalised audits carried forward from 2013/14.

The Chief Internal Auditor reported that a recent procurement audit was carried out by Newport City Council on behalf of the Authority and other member Authorities, in accordance with the

Welsh Purchasing Consortium arrangement for the provision of agency staff. A reasonable audit opinion was given and a recommendation made in relation to ensuring that appropriate checks are carried out on agency staff.

An audit was carried out on the Carbon Reduction Committee (CRC) Energy Management Return, which was given a substantial audit opinion. It was recommended that Management should ensure that there is adequate segregation of duties for staff in the Energy Management Section.

The Building Maintenance Service was issued with a reasonable audit opinion; however the process for out-of-hours calls was over-complicated due to the unnecessary involvement of the Highways Section which resulted in duplication and differing recorded details.

An audit on taxi licensing was given a substantial audit opinion, and it was noted that a number of strengths and areas of good practice were identified within the Licensing Department. She reported that there was good and open communication between Officers of the team and queries raised during the audit testing were seen to be actioned immediately.

In relation to the audit carried out on Park Income, the Chief Internal Auditor explained that the main issue was that a review should be carried out on all leases to ensure they were still relevant; also leases should be introduced where none currently existed.

Home to School Transport was one area highlighted for potential savings in the MTFs. It was given a substantial audit opinion, with a number of recommendations. She explained that following a review of bus contracts for 2014/15 and the indicated potential savings, instances where operators are tendering for more routes than they had the capacity to fulfil should be identified. The main recommendation was to ensure that operators who worked across local authorities were not at risk of trying to cover schools in both areas at the same time. She advised that there needed to be closer liaison with neighbouring authorities to ascertain what contractors they were using.

She reported that a reasonable audit opinion had been given to the audit carried out on the SEWTA Grant Verification and despite varying information being received from SEWTA, no recommendations were required.

The Learner Transport Project was given a reasonable audit opinion. She advised that this was an on-going review and would be revised after consultation due to go out this month, was completed.

The Chief Auditor informed Members that the Corporate Director -Resources had requested Internal Audit to review the Porthcawl Harbour Project. The project forms part of a wider plan to regenerate Porthcawl as part of the Swansea Bay Water Sports Centre of Excellence Programme. It was not appropriate to give an audit opinion as the review was undertaken to identify what lessons could be learnt going forward; a number of recommendations were made relating to future project management. She explained that information from the lead council, Swansea, was not forthcoming, which resulted in assumptions being made. However, she reported that the situation had now changed.

A Member asked whether the Committee would have sight of the full report and the Chief Internal Auditor advised that Members of the Committee were at liberty to request any Internal Audit report. The Member therefore requested that the Internal Audit Report on Porthcawl Harbour be brought to the next Audit Committee meeting.

A Member asked whether an audit would be given a substantial audit opinion if there were no recommended actions from the work carried out in a review, e.g. Learner Transport.

The Chief Auditor explained that it was not an exact science and a review such as the Learner Transport it could be given reasonable assurance, yet contain a large selection of recommendations and only the significant points were reported. It has to have an element of judgement as to how it is working.

RESOLVED: That the Committee gave due consideration to the implementation of recommendation report to ensure that this aspect of their core functions is being adequately reported.

142 INTERNAL AUDIT-OUTTURN REPORT - APRIL TO AUGUST 2014

The Chief Internal Auditor presented a report, the purpose of which was to inform the Committee of the actual Internal Audit performance against the five months of the audit plan year April 2014 to August 2014. The Plan had provided for a total of 1,130 productive days to cover the period April 2014 to March 2015, and a summary of commenced and ongoing audits during the period April to August 2014 were detailed under Appendix A.

She referred Members to Section 3 of the Head of Audit's ongoing opinion report attached at Appendix B and advised that a risk based approach to the planning had taken into consideration resources available at the time. She reported that so far this year, one Officer had returned to work after long term sickness absence; although on returning that Officer had requested a move to part time work which was expiated. Another member of staff had left to take up another post in London, and she had just been informed that one of the Group Auditors was due to go into hospital in October, and would be on sick leave for a minimum of eight weeks. She advised that this would impact on service delivery whereby the internal work plan would need to be revisited and a risk assessment carried out, with the revised audit plan being brought to the Committee in due course to take account of the impact of staffing issues. She informed the Committee that it would effectively equate to a loss of 1.5 full time equivalent staff on the number of productive days.

The Chief Internal Auditor advised that since last November Internal Audit had undertaken Post Audit Assessments for each report completed. A total of 115 assessments had been evaluated and she was pleased to report that 6% of the assessments scored '5' as Auditors had identified areas of improvement in terms of efficiency and effectiveness, resulting in measurable savings and 75% have identified that staff are producing work of a high standard whereby:- the scope and objectives of the review have been met; working papers and evidence are of a good standard and relevant; testing supports the findings and conclusion drawn; the report produced is of a good standard, timely and accurate and finally the appropriate assurance level had been applied. The performance figures also showed that 551 actual productivity days were achieved amounting to 101% overall which meant the Section had exceeded expectations.

She informed the Committee that the overall response rate to the Client Satisfaction Surveys totalled 74%, which was higher than the response rate from the Vale of Glamorgan Council, and significantly higher than the 54% average for Wales.

RESOLVED: That the Committee gave due consideration to the Internal Audit Outturn Report covering the period April 2014 to August 2014 to ensure that all aspects of their core functions are being adequately reported.

143 IMPLEMENTATION OF RECOMMENDATIONS

The Chief Internal Auditor presented a report on the recommendations made since the 1<sup>st</sup> April 2014, in accordance with the Audit Committee's Forward Work Programme.

She suggested to Members that the implementation of recommendations reported could be incorporated into the Outturn as they are very much interlinked, and therefore would enable the Committee to give consideration to all aspects of the Internal Audit processes and procedures. It was agreed that this would be actioned from the next outturn report.

The Chief Internal Auditor reported that the intention was to streamline the process and procedures for efficiency and lean auditing. She informed Members that they constantly received comments about "merits attention" and explained that the reason was to convey that although there was control, there was margin for a more desirable and/or added value. The current system is time consuming, as the Auditors are required to manage the responses in order to keep the management system up to date and managers have to take the time to respond to such recommendations which can be over-burdensome. By implementing the new system, although the Auditors would continue to make the "merits attention" proposals, there would no longer be a need to report them, and by not demanding a response would assist the process.

A Member asked why Table 1 of the report did not include a description for "Value for Money".

The Chief Internal Auditor explained that the 16 recommendations were divided into different categories and the information extracted from the management system between April and August 2014 had no categories which necessitated recommendations for "Value for Money". She added that it did not rule the possibility that there would be recommendations to that effect in the future.

RESOLVED: That the Committee gave due consideration to the report on completed audits to ensure that all aspects of their core functions are being adequately reported.

144 FORWARD WORK PROGRAMME - 2014/15

The Chief Internal Auditor presented a report to update Members on the 2014 - 2015 Forward Work Programme (FWP) for the Audit Committee, attached at Appendix A to the report.

RESOLVED: That the Committee gave due consideration to the updated 2014-2015 Forward Work Programme to ensure that all aspects of their core functions were being adequately reported.

The meeting closed at 4.03pm.