



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Audit of Financial Statements Report

Bridgend County Borough Council

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The audit was delivered by KPMG LLP on behalf of the Appointed Auditor. The audit team comprised Ian Pennington (Director), Matthew Arthur (Manager) and Georgianna Rustell (Assistant Manager).

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Anthony Barrett, as Appointed Auditor, intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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Summary report

Introduction

1. Anthony Barrett as Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Bridgend County Borough Council at 31 March 2012 and its income and expenditure for the year then ended.
2. We received the draft financial statements for the year ended 31 March 2012 on 29 June, prior to the agreed deadline of 30 June, and have now substantially completed the audit work. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team have already discussed these issues with Section 151 Officer and Chief Accountant.
3. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
4. The quantitative level at which we judge such misstatements to be material for Bridgend County Borough Council is £3m. This figure has been revised since our Audit Plan based on the gross operating expenditure within the draft financial statements. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

Proposed audit report

5. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
6. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

7. There are no misstatements identified in the financial statements that remain uncorrected.

Corrected misstatements

8. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

Other significant issues arising from the audit

9. In the course of the audit we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** The first draft of the Statement of Accounts that we were presented was generally of a very good quality and we found the information provided to us for audit to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work. The Council acquired a new fixed asset accounting module this year following the difficulties that we experienced in previous years in auditing this area. This improved the Council's ability to prepare and control the accounting records in this areas, and our ability to audit this area in a timely manner. We believe that this will continue to improve in future years as the Council gains more experience in using the system.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.** Key financial statement audit risks identified in the audit strategy, presented to Audit Committee by KPMG on 15 March 2012, and our related findings, are shown in the table below.

Key financial statement audit risk	Findings
Complex environment and budget settlements	<p>The overall financial position of the Council is more certain this year following the settling of the equal pay claims against the Council and the job evaluation exercise approaching completion. (See below) This has also reduced the uncertainty involved around estimates made in the financial statements for these liabilities.</p> <p>We performed testing on the operating effectiveness of the Council's budgetary controls and concluded that we were able to rely on these tests for our audit.</p> <p>We performed detailed testing on the Council's year end liabilities and estimates to confirm that the Council is recognising all costs relating to 2011/12 and the assumptions within its estimates are reasonable. From this testing, we did not identify any additional costs, provisions or asset impairments that are required to be included in the 2011/12 financial statements.</p>
Annual Governance Statement	<p>We have read the Governance Statement and checked that it agrees with our understanding of the arrangements in place at the Council. We have checked and confirmed compliance with the guidance issued by CIPFA/SOLACE. We suggested some minor amendments to the text which have been incorporated into the final version.</p>
Carbon Reduction Commitment	<p>We have reviewed the monitoring arrangements for the Carbon Reduction Commitment which appear appropriate to monitor consumption incurred</p>

Key financial statement audit risk	Findings
	and confirmed that the Council has appropriate processes in place regarding the significant financial implications of the Commitment. A provision for £223,000 is included in the 2011/12 financial statements which is in line with the Commitment allowances needed to cover the Council's CRC emissions during 2011/12.
Capital Accounting	<p>The Council has purchased a new CIPFA fixed asset accounting module which improved the information provided for audit in this area.</p> <p>We reviewed the transfer of data and the control reconciliations between the previous Excel asset register and the new CIPFA module and found that the data had been transferred accurately.</p> <p>Our audit of the major capital transactions in the year (significant additions, disposals, revaluations and impairments) and disclosures in the accounts identified two adjustments relating to assets held for sale (see Appendix 3).</p> <p>There is ongoing deliberation at a national level by CIPFA/LASAAC regarding the status of voluntary aided and voluntary controlled schools, and whether these should be recognised within the assets of Local Authorities. Bridgend recognises its one voluntary controlled school as an asset but does not recognise the voluntary aided schools. This is consistent with last year and appropriately disclosed in the Statement of Accounts. We consider this treatment to be appropriate for 2011/12 and will reconsider the treatment once CIPFA/LASAAC completes its deliberations and issues new guidance.</p>
Outsourcing of leisure facilities	The contract for the outsourcing of leisure service management started on 1 April 2012. We have reviewed the accounting treatment for the contract and confirmed that there are no significant costs incurred, leases created or assets purchased in advance as part of the contract. No accounting entries were required in the March 2012 financial statements.
Payroll costs	<p>The Council has had issues in previous years over the documentation of starters and leavers to the payroll. This has been reported to Audit Committee by both external and internal auditors. We have performed detailed testing on budgetary controls over payroll costs, which we found to be operating effectively and sufficient from a financial statements perspective to mitigate any failures in controls over starters and leavers. Combined with our substantive testing, this enabled us to conclude that payroll costs within the 2011/12 accounts are not materially misstated.</p> <p>For this reason, we did not perform any detailed testing on controls over starters and leavers this year although we have reviewed the work of internal audit over this area, which shows that record-keeping, has improved but still identified some missing documentation. The full findings of this Internal Audit report will be reported to a future Audit Committee. We recommend that the council continue its efforts to improve the record-keeping in this area.</p>
Response to potential fraud incident within specific service area	<p>Officers reported to Audit Committee during 2011 about a potential fraud incident within one service area. Some of the controls around purchasing and monitoring expenditure had not operated. In response to this risk, we performed specific computer-assisted audit techniques ('CAATs') in order to identify other areas where there could be increased risk of similar potential frauds.</p> <p>We analysed data sets from the purchase ledger, payroll and other</p>

Key financial statement audit risk	Findings
	<p>relevant feeder systems in order to identify potential “red flags”, which were then followed up by Internal Audit.</p> <p>The work is now at a stage where we can conclude that there were no issues identified which have a significant impact on the financial statements. However, there were some potential issues identified relating to improvements in processes, review of old accounts and weaknesses in some systems which are still being investigated. Internal Audit will report these recommendations within a detailed report on this work to the Audit Committee at a later date.</p> <p>In addition, our testing of budgetary controls found that these are operating effectively and designed sufficiently to identify any material fraud.</p>
Complex financial statements	The accounts production process at Bridgend has historically been timely and well organised and this continued this year.
Equal pay and job evaluation	<p>£15.7m of equal pay claims had been agreed with cheques written by the year-end and the remaining £1.3m cheques were written and issued post year-end, so there was little judgement required relating to this balance by the time of our audit</p> <p>The 2010/11 provision also included a balance relating to pension contributions on the equal pay payments. These have now all been paid to the Pension Administrator; the majority was paid in 2011/12 with the only amounts still requiring provision at year-end relating to the £1.3m cheques above. These remaining amounts were paid during 2012/13.</p> <p>The draft financial statements also included a £3m provision balance relating to pay protection that had been agreed as an outcome of the job evaluation exercise. Our review of the proposed agreement identified that the pay protection will be earned and paid as part of salary for the first year that the affected employees work following the implementation of job evaluation. This is therefore a cost relating to 2012/13, which should not be provided for in 2011/12 under the IFRS (International Financial Reporting Standards) definition of a provision. This has therefore been adjusted. Officers have set up a corresponding earmarked reserve so that the pay protection can be funded. There is no net impact on the council fund.</p>
Property valuation	In times of economic uncertainty, property values can come under pressure, and any reductions or impairments should be reflected in the accounts. We have not identified any additional indicators of impairment of any of the Council's land and buildings in addition to those already recognised by management. Assets Held for Sale have been revalued appropriately.

- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any material weaknesses in your internal controls.** We report any significant control deficiencies where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment, in Appendix 4. Several non-material weaknesses and potential areas for improvement regarding internal controls have also been detailed in Appendix 5.

Appendix 1

Final Letter of Representation – Appointed Auditor

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff Bay
CF10 4AX

26 September 2012

Representations regarding the 2011/12 financial statements

This letter is provided in connection with your audit of the financial statements of Bridgend County Borough Council for the year ended 31 March 2012.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- our knowledge of fraud or suspected fraud that we are aware of and that affects Bridgend County Borough Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements;
- the identity of all related parties and all the related party relationships and transactions of which we are aware;

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. There have been no uncorrected misstatements identified during the audit.

Representations by the Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Bridgend County Borough Council on 26 September 2012.

Signed by:

Ness Young – Assistant Chief Executive -
Performance

Date:

Signed by:

Chair of Audit Committee

Date:

Appendix 2

Proposed audit report of the Appointed Auditor to Bridgend County Borough Council

Independent auditor's report to the Members of Bridgend County Borough Council

I have audited the accounting statements and related notes of Bridgend County Borough Council for the year ended 31 March 2012 under the Public Audit (Wales) Act 2004.

Bridgend County Borough Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement, and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 14, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Bridgend County Borough Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Bridgend County Borough Council

In my opinion the accounting statements and related notes:

-
- give a true and fair view of the financial position of Bridgend County Borough Council as at 31 March 2012 and of its income and expenditure for the year then ended; and
 - have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Bridgend County Borough Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

Anthony Barrett

Appointed Auditor

**Wales Audit Office,
24 Cathedral Road,
Cardiff,
CF11 9LJ**

28 September 2012

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
Debit provisions £3,000,000 Credit Comprehensive Income & Expenditure Statement (CI&ES) £3,000,000 Debit Movement in Reserves Statement (MIRS) £3,000,000 Credit earmarked reserves £3,000,000	Removal of pay protection provision and set-up of corresponding reserve for pay protection.	As detailed on page 8, there was a provision for pay protection in the draft accounts which did not meet the strict definition of a provision under IFRS. Therefore this has been removed, and officers have set up a corresponding earmarked reserve.
Debit CI&ES £1,791,000 Credit Provisions £1,791,000 Credit earmarked reserves £1,791,000 Debit MIRS £1,791,000	Set-up of provision for MMI claims and removal of corresponding reserve.	There has been a contingent liability disclosed in the Council's accounts for several years relating to Municipal Mutual Insurance (MMI), a company which provided insurance to the predecessors to Bridgend CBC (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. Following the Supreme Court judgement against MMI in March 2012 relating to asbestos inhalation condition claims, and previous correspondence from MMI, the probability of an insolvency has increased. In discussion with officers, we agree that the risk of claims from MMI should now be recognised as a provision within the Council's 2011/12 accounts. The Authority had already set aside an earmarked reserve for the full amount of its proportion of the claims within its draft accounts so the adjustment has no impact on the final council tax balance.
Debit creditors £899,000 Credit cash 899,000	Reclassification of schools unrepresented cheques from creditors to cash	Cheques issued but not yet cashed by creditors ("unrepresented cheques") are usually included within the cash balance. The cash balance within the accounts included unrepresented cheques for the main authority bank account but not for the school bank accounts.

Value of correction	Nature of correction	Reason for correction
Debit cash £8,042,000 Credit creditors £8,042,000	Reclassification of equal pay cheques drawn but not issued to creditors	Equal Pay cheques that had been drawn but not yet issued to employees and signed for have been treated as uncleared items on the bank reconciliation. As the cheques had not been issued or agreed with the employees at the year-end (and therefore could not be cashed at that date), these cheques should have been held within creditors.
Debit operational land & buildings £1,000,000 Credit assets held for sale £1,000,000	Reclassification of Bryngarw House as no longer held for sale.	Bryngarw House was on the market for sale at 31 March 2011 (so it was classed as an Asset Held for Sale). The Council subsequently decided not to sell the asset so it was not on the market at 31 March 2012; in accounting terms, the assets should have been transferred out of Assets Held for Sale and back into operational land and buildings.
Debit loss on disposal of non-current assets £45,000 Credit assets held for sale £45,000 Debit Capital Adjustment Account £45,000 Credit MIRS £45,000	Recognition of two land disposals	Two land sites had been disposed during the year but had not been taken out of the accounts (where they were held in the Assets Held for Sale category).

Appendix 4

Internal Control Weaknesses and Recommendations

We report any significant control deficiencies where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment. We have not identified any significant control deficiencies during the 2011/12 audit.

During our audit we identified the following internal control deficiency that was not deemed material, but we consider should be drawn to your attention as follows:

Observation	Recommendation	Management Response
<p>Unknown differences on school bank accounts reconciliation</p> <p>The reconciliation of the school bank account general ledger code to the SIMS schools accounting system has had an ongoing unreconciled difference for the last two years. This amounts to £26,000 at this year end.</p> <p>In addition, there are no written operating instructions for the reconciliation, and staff changes resulted in an error in the preparation of the reconciliation that has subsequently been corrected (see Appendix 3).</p>	<p>Although this difference is currently not significant from a financial statement perspective, there is a risk that it will increase in value, and it is may be more material to the individual service.</p> <p>We recommend that management investigates the difference to identify the cause and posts appropriate adjustments to resolve.</p> <p>We also recommend that the Authority produces operating instructions for this reconciliation process.</p>	<p>The balance of £26,000 related to previous years' unreconciled balances, which had not been dealt with. Following reconciliation of the balance sheet codes for 2011/12 there are now no outstanding unreconciled balances. A different member of staff has taken over responsibility for cheque book schools, working papers will be drafted for future reference to ensure the issue does not arise again.</p>
<p>IT Findings</p> <p>As part of our audit, we perform work on controls over the key IT systems for financial reporting, which are the General Ledger system (COA), Tax & Benefits system (iWorld) and Payroll system (Trent).</p> <p>During this work, we identified a number of minor recommendations, mainly around access to privileged accounts, which we have reported to management.</p>	<p>We have provided detailed recommendations to management – we recommend that these are reviewed and addressed.</p>	<p>Management agrees the recommendations and has put in various plans to address the issues raised in appropriate timescales.</p>

Follow up on prior year recommendations

The following recommendations were considered material and reported to the Audit Committee following our 2010/11 audit. We have followed up on these issues this year to confirm the current status.

Recommendation	Management Response	Follow up
<p>Capital Accounting Issues</p> <p>The current arrangements for capital and capital financing accounting consist of multiple spreadsheets with transactions only being posted at year-end, and this caused difficulties in reconciling to the postings made and resulted in some delays.</p> <p>The complexity of these arrangements also results in substantial inefficiencies for officers in performing the capital accounting transactions and being able to respond to audit queries.</p> <p>We understand that officers are already taking the necessary steps to resolve these issues by changing the arrangements for capital accounting.</p>	<p>A new Asset Register with a dedicated Capital Accounting and Valuation module has been purchased by the Authority and will be implemented for the 2011/12 Financial Year. Additional preparations will be undertaken before the end of March 2012 to ensure a smoother close down of Capital.</p>	<p>Implemented</p> <p>The CIPFA asset register has been implemented, the old asset register has been transferred into this new module and the module has used for the 2011/12 capital accounting transactions.</p> <p>Our audit of the capital balances has been quicker this year and identified fewer issues, although there were still a small number of audit adjustments that may have been identified by management if capital accounting was performed throughout the year rather than a year-end process.</p>
<p>HR documents could not be located</p> <p>We found that some of the documents we requested as evidence for new employees and leavers during the audit year could not be located. In addition we identified one case of lack of compliance with procedures around amendments to bank details.</p> <p>We understand that officers have introduced new procedures following Internal Audit recommendations aiming to eliminate the issues noted.</p>	<p>Management is addressing this issue.</p>	<p>In progress</p> <p>Our approach to the payroll audit was to place more reliance on budgetary controls this year which are sufficient to identify any significant misstatements of the accounts, so we did not perform detailed testing on HR documentation.</p> <p>However, we note that Internal Audit performed work in this area and identified an improvement from previous years, although there were still a small number of documents missing from starters and leavers files.</p>

Recommendation	Management Response	Follow up
<p>Response to whistle-blowing We note that there has been a case regarding a whistle-blowing report, where the Council's investigation was in insufficient detail, resulting in the Council concluding incorrectly in the initial investigation.</p> <p>We recommend that the Council should consider its responses to whistle-blowing reports, and whether it should adapt its processes to ensure that they are addressed appropriately and in a timely manner.</p>	<p>Management will follow up on this.</p>	<p>Implemented</p> <p>This case was complicated by the lack of information provided by the anonymous whistle blower, it has been considered at a corporate level and whilst there will always be a risk in respect of this type of information, the Authority is satisfied that the policy is fit for purpose. Changes have been considered however to the way in which internal staffing investigations are monitored.</p>
<p>Anti-fraud and corruption policy out of date We are unable to establish when the Anti-fraud and corruption policy was last updated. The policy's definitions of fraud do not cover the new definitions under the Fraud Act 2006, and the policy should also be updated to cover the requirements of the Bribery Act 2010, for example "Are there adequate anti bribery procedures in place".</p> <p>We recommend that the policy should be updated to reflect the requirements of the new Acts, and that the policy should be dated.</p>	<p>Management will follow up on this.</p>	<p>In progress</p> <p>The Anti-fraud and Corruption Policy is currently being updating for the Bribery Act and will be taking to a future Committee for approval once completed.</p>



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