

# Public Document Pack

## Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr

### Bridgend County Borough Council



Swyddfeydd Dinesig, Stryd yr Angel, Pen-y-bont, CF31 4WB / Civic Offices, Angel Street, Bridgend, CF31 4WB

*Rydym yn croesawu gohebiaeth yn Gymraeg.  
Rhowch wybod i ni os mai Cymraeg yw eich  
dewis iaith.*

*We welcome correspondence in Welsh. Please  
let us know if your language choice is Welsh.*



Dear Councillor,

#### **AUDIT COMMITTEE**

A meeting of the Audit Committee will be held in the Committee Rooms 2/3, Civic Offices, Angel Street, Bridgend CF31 4WB on **Thursday, 24 November 2016 at 10.00 am.**

#### **AGENDA**

1. Apologies for Absence  
To receive apologies for absence from Members.
2. Declarations of Interest  
To receive declarations of personal and prejudicial interest (if any) from Members/Officers in accordance with the provisions of the Members' Code of Conduct adopted by Council from 1 September 2014
3. Approval of Minutes 3 - 10  
To receive for approval the minutes of a meeting of the Audit Committee dated 29 September 2016
4. Half Year Treasury Management Report 2016-17 11 - 28
5. Information and Action Requests by Committee 29 - 30
6. Completed Audits 31 - 38
7. Internal Audit - Outturn Report - April to October 2016 39 - 62
8. Schools Summary Report 2015/16 63 - 66
9. Update on National Fraud Initiative 67 - 74
10. Updated Forward Work Programme 2016-17 75 - 78
11. Urgent Items

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To consider any other items(s) of business in respect of which notice has been given in accordance with Rule 4 of the Council Procedure Rules and which the person presiding at the meeting is of the opinion should by reason of special circumstances be transacted at the meeting as a matter of urgency.

Yours faithfully

**P A Jolley**

Corporate Director Operational and Partnership Services

**Distribution:**

Councillors:

GW Davies MBE

JR McCarthy

JE Lewis

C Westwood

Councillors

D Sage

CL Jones

DK Edwards

G Davies

Councillors

CA Green

E Dodd

M Gregory

RE Young

Lay Member

J Williams

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

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

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;

- 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



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.

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

## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

24 NOVEMBER 2016

#### REPORT OF THE HEAD OF FINANCE & SECTION 151 OFFICER

##### HALF YEAR TREASURY MANAGEMENT REPORT 2016-17

### 1. Purpose of the Report

- 1.1 The purpose of the report is to update Audit Committee on the mid-year review and half year outturn position for Treasury Management activities, Treasury Management and Prudential Indicators for 2016-17 and to highlight the compliance with the Council's policies and practices which have been reported to Cabinet and Council.

### 2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1 The work of the Audit Committee supports corporate governance and assists in the achievement of all corporate and service objectives. Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council make best use of financial resources and hence assist achievement of Corporate Priorities.

### 3. Background

- 3.1 To ensure effective scrutiny of treasury management in accordance with the Treasury Management Strategy, Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. During the 2016-17 financial year to date, in addition to the regular treasury management reports to Cabinet and Council, Audit Committee received the Annual Treasury Management Report 2015-16 in June 2016.
- 3.2 The Council's Treasury Management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, develops the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities and to operate the overall treasury function with

regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

- 3.3 The Council is required to operate the overall treasury function with regard to the Code and this was formally adopted by the Council in February 2012. This includes a requirement for the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. Council approved the TMS 2016-17 on 10 March 2016.
- 3.4 The Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010, which requires the Council to approve an Investment Strategy prior to the start of each financial year and this is included in the TMS.

#### **4. Current Situation**

- 4.1 The Council has complied with its legislative and regulatory requirements during the first half of 2016-17. The Treasury Management Strategy 2016-17 and the Half Year Outturn were reported to Council on 10 March 2016 and 2 November 2016 respectively. In addition, a quarterly monitoring report was presented to Cabinet in July 2016.
- 4.2 A detailed summary of the Treasury Management Activities for the first half of 2016-17 is shown in Appendix A. No long term borrowing or debt rescheduling has been taken as there were no significant savings to be made, however, for cash-flow purposes some short term borrowing was taken as detailed in section 2 in Appendix A. Favourable cash flows have provided surplus funds for investment and the balance on investments at 30 September 2016 was £47.10 million with an average rate of interest of 0.51%. This was an increase from the start of the financial year where investments were £26.00 million but the average rate of interest has decreased from 0.67%. The first table in section 4 in Appendix A details the movement of the investments by counterparty types and shows the average balances, duration and rates for the first half of 2016-17.
- 4.3 Also, as a result of the Brexit vote, markets have been volatile and following the reduction in the bank rate from 0.50% to 0.25% on 4 August 2016, interest rates have dropped which will result in a reduction in interest earned in 2016-17 but in conjunction with Arlingclose other possible investment options will be investigated. This reduction is not fully reflected in the investment return shown in the table in section 4 in Appendix A as this table includes investments which were previously agreed at rates prior to the rate cut but as

older investments mature and new ones are taken out in the next quarter the investment return will fall.

4.4 The Council's Treasury Management advisers are currently Arlingclose. Their contract expired on 31 August 2016 so the contract was retendered in July and Arlingclose were the successful tenderer and awarded a new contract from 1 September 2016. The services provided to the Council include:-

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

4.5 Cipfa's Code of Practice for Treasury Management requires all Local Authorities to conduct a mid-year review of its treasury management policies, practices and activities. As a result of this review it was not deemed necessary to make any changes to the Treasury Management Strategy 2016-17, although the MRP Policy is currently under review. However, as detailed in section 5 in Appendix A for clarification purposes, there is a minor amendment which should be made to the Investment Strategy in relation to Local Authority credit ratings.

4.6 The 2011 Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management and Prudential Indicators. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital programme. Details of the estimate for 2016-17 set out in the Council's Treasury Management Strategy and also the projected indicators for 2016-17 are shown in section 7 in Appendix A.

## **5. Effect upon Policy Framework & Procedure rules**

5.1 As required by Financial Procedure Rule 17.3, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Strategy 2016-17 as approved by Council.

## **6. Equality Impact Assessment**

6.1 There are no equality implications.

## **7. Financial Implications**

7.1 The financial implications are reflected within the report.

## **8. Recommendation**

8.1 It is recommended that the Committee:

- Note the Annual Treasury Management Activities for 2016-17 for the period 1 April 2016 to 30 September 2016, the minor amendment to the Investment Strategy in the Treasury Management Strategy 2016-17 and the projected Treasury Management and Prudential Indicators for 2016-17 which were all reported to Council for approval on 2 November 2016.

**Randal Hemingway**  
**Head of Finance and Section 151 Officer**  
**2 November 2016**

**Contact Officer:** Karin Thomas  
Loans & Investment Officer

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**Postal Address:** Raven's Court, Brewery Lane, Bridgend, CF31 4AP

### **Background documents:**

Treasury Management Strategy 2016-17

**SUMMARY OF TREASURY MANAGEMENT ACTIVITIES  
01 APRIL TO 30 SEPTEMBER 2016**

1. The treasury position for 1 April to 30 September 2016:

		Principal as at 01-04-16	Average Rate	Principal as at 30-09-16	Average Rate
		£m	%	£m	%
Fixed rate long term funding	PWLB*	77.62	4.70	77.62	4.70
Variable rate long term funding	LOBO**	19.25	4.65	19.25	4.65
<b>Total Long Term External Borrowing***</b>		<b>96.87</b>	<b>4.69</b>	<b>96.87</b>	<b>4.69</b>
Other Long Term Liabilities*** (including PFI)		22.42		22.10	
<b>TOTAL GROSS DEBT</b>		<b>119.29</b>		<b>118.97</b>	
Fixed rate investments		22.50	0.64	44.45	0.49
Variable rate investments		3.50	0.86	2.65	0.80
<b>TOTAL INVESTMENTS****</b>		<b>26.00</b>	<b>0.67</b>	<b>47.10</b>	<b>0.51</b>
<b>TOTAL NET DEBT</b>		<b>93.29</b>		<b>71.87</b>	

\* Public Works Loan Board (PWLB)

\*\* Lender's Option Borrower's Option (LOBO)

\*\*\* Long term borrowing include all instruments with an initial term of 365 days or more and long term liabilities includes the short term element of the liability

\*\*\*\* The investment totals include instant access deposit accounts which are included as "Cash" in the Council's balance sheet in the Statement of Accounts and also investments shown as "Cash Equivalents" in the Council's balance sheet that mature in 1 month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

Fixed rate in the above table includes instruments which are due to mature in the year

The £19.25 million in the above table relates to Lender's Option Borrower's Option (LOBO) loans due to mature in 2054, and which may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the next trigger

date being January 2017 however it is not expected to be repaid on this date) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The current average interest rate for these LOBO's is 4.65% compared to the PWLB Loans average interest rate of 4.70%.

The long term liabilities figure of £22.10 million at 30 September 2016 includes £18.51 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg) and £2.40 million relating to a loan from the WG Central Capital Retained Fund for regeneration works within the Llynfi Valley.

It should be noted that the accounting practice required to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures shown in the above table and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or are stated at fair value in different instances.

## **2. Borrowing Strategy and Outturn for 1 April to 30 September 2016**

The Bank Rate started the financial year at 0.50% after entering its eighth year at that level and remained at this rate until 4 August 2016 when it reduced to 0.25%. When the Treasury Management Strategy for 2016-17 was prepared it was forecast that the bank rate would increase by 0.25% in September 2016 and possibly rise to 1% by the end of the 2016-17 financial year, however as a result of the Brexit vote this will not happen and Arlingclose are predicting that it is possible there could be a further rate cut in coming months.

The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the PWLB at long term fixed rates of interest.

With short-term interest rates lower than long term rates, it is likely to be more cost effective in the short term to either borrow short term loans or use internal resources. Short term and variable rate loans expose the Council to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as shown in the treasury management indicators below in section 7. However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against the potential longer-term costs. The Council's Treasury Management advisors assist the Council with this 'cost of carry' and breakeven analysis.



No long term borrowing has been taken during the period 1 April to 30 September 2016 and it is not expected that there will be a requirement for any long term borrowing in 2016-17, however for cash-flow purposes £7.20 million short term borrowing was taken - £2 million taken in July and repaid in August, £2.50 million taken in August and repaid in September and £2.70 million taken in September which was repaid in October. Also, market conditions have meant that there has been no loan rescheduling so far this year, however, in conjunction with Arlingclose, the loan portfolio will be reviewed for any potential savings as a result of any loan rescheduling.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This is known as Internal Borrowing. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

### **3. Investment Strategy 2016-17**

Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, balancing the risk of incurring losses from defaults against receiving unsuitably low investment income.

The major objectives to be followed in 2016-17 are:-

- To maintain capital security;
- To maintain liquidity so funds are available when expenditure is needed;
- To achieve the yield on investments commensurate with the proper levels of security and liquidity.

The Annual Investment Strategy incorporated in the Council's Treasury Management Strategy 2016-17 includes the credit ratings defined for each category of investments and the liquidity of investments. The Council's investments have historically been placed in short term bank and building society unsecured deposits and local and central government, however, investments may be made with any public or private sector organisations that meet the minimum credit criteria specified in the Investment Strategy. The Council is looking to diversify into more secure and/or higher yielding asset classes during 2016-17 but any new instruments used will be in full consultation with the Council's treasury management advisors. In order to be

able to use these different types of instruments the Council is required to hold a custody account with a third party as we are unable to deal direct and this is currently awaiting approval.

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

#### **4. Investment Outturn for 1 April to 30 September 2016**

On a day to day basis, the Council typically has surplus cash balances arising from the cash flow e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in deposit accounts. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy. There are two long term investments (original duration of 12 months or more) outstanding as at 30 September 2016 with a local authority - £2 million for one year at a rate of 0.59% which matured in October 2016 and £2 million for two years at a rate of 1.00% maturing in November 2017 but all other investments at 30 September 2016 are short term (deposit accounts or fixed term deposits). The table below details these investments outstanding by counterparty type:

## APPENDIX A

Investment Counterparty Category	Balance 01 April 2016 (A) £m	Investments Raised (B) £m	Investments Repaid (C) £m	Balance 30 Sept 2016 (A+B-C) £m	Average Duration Investments in force during Apr - Sept 2016 Days	Average Original Duration of the Investment Days	Weighted Average Investment Balance Apr - Sept 2016 £m	Weighted Average Interest Rate Apr-Sept 2016 %
Govt DMO	-	28.20	28.20	-	5	5	0.66	0.18
Local Authorities	19.50	115.80	101.85	33.45	44	90	33.98	0.46
Building Societies	1.00	6.00	1.00	6.00	139	181	5.75	0.68
Banks (Fixed Maturity)	2.00	4.00	1.00	5.00	90	230	3.06	0.92
Banks Instant Access/Notice Period Accounts *	3.50	39.30	40.15	2.65	n/a	n/a	4.89	0.69
<b>Total/Average</b>	<b>26.00</b>	<b>193.30</b>	<b>172.20</b>	<b>47.10</b>	<b>70</b>	<b>127</b>	<b>48.34</b>	<b>0.54</b>

\* An average duration is not shown as money is frequently added / withdrawn to/from these accounts as required by cash-flow

Favourable cash flows have provided positive cash balances for investment and as shown above the balance on investments at 30 September 2016 was £47.10 million. The table below shows a breakdown by counterparty type based on the remaining maturity period as at 30 September 2016:

Counterparty Category	Instant Access Deposit Accounts £m	Notice Period Deposit Accounts £m	Deposits Maturing Within 1 Month £m	Deposits Maturing Within 1-3 Months £m	Deposits Maturing Within 4-6 Months £m	Deposits Maturing Within 6-12 Months £m	Deposits Maturing Within 1-2 Years £m	Total £m
Local Authorities	-	-	13.00	7.15	3.80	7.50	2.00	33.45
Building Societies	-	-	5.00	-	1.00	-	-	6.00
Banks	0.65	2.00	-	2.00	2.00	1.00	-	7.65
<b>Total</b>	<b>0.65</b>	<b>2.00</b>	<b>18.00</b>	<b>9.15</b>	<b>6.80</b>	<b>8.50</b>	<b>2.00</b>	<b>47.10</b>

Occasionally, investments are placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits and after all other options have been explored. The interest rates offered by this facility are lower than some other counterparties but this is commensurate with the high level of security and reduced risk offered. It

provides another option when examining potential investments and ensures compliance with the Council's investment objective that security takes priority over yield. There were no deposits outstanding at 30 September 2016.

The Council's primary objective for the management of its investment portfolio is to give priority to the security and liquidity of its funds before seeking the best rate of return. As shown above, the majority of surplus cash has been held as short term investments with UK Local Authorities and banks and building societies of high credit quality. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity.

Following the United Kingdom's vote to leave the European Union, there has been volatility within the markets. This continues to be far lower than during the credit crunch and ensuing financial crisis, but is expected continue into the medium term and it is probable that there will be a weakening of the UK economy. The long term economic effects remain uncertain, and may be less severe than many previously suggested. The situation in the markets will evolve, however current impacts have been less pronounced than worst case considerations indicated. The Council's Treasury Management advisors Arlingclose, continues to monitor the credit situation closely and remains comfortable with clients making investments in institutions as long as they are compliant with our Investment Strategy.

## 5. Review of the Treasury Management Strategy 2016-17

Cipfa's Code of Practice for Treasury Management requires all Local Authorities to conduct a mid-year review of its treasury management policies, practices and activities. As a result of this review it was not deemed necessary to make any changes to the Treasury Management Strategy 2016-17, although the MRP Policy is currently under review.

For clarification purposes however, there is a minor amendment which should be made to the Investment Strategy included within the Treasury Management Strategy 2016-17 (Table 3 Non-Specified Investment Limits) as additional wording would make it clear that Local Authorities are excluded from this limit as the majority of Local Authorities do not have credit ratings:

- **Current Extract** - Total Investments without credit ratings or rated below the Council's definition of "high credit quality" – Category Cash limit of £6m

- **Replacement Extract** - Total Investments without credit ratings (excluding Local Authorities) or rated below the Council's definition of "high credit quality" – Category Cash limit of £6m

## 6. Cardiff Capital Region City Deal

As Members will be aware, progress is being made on the Cardiff Capital Region City Deal initiative. It will have significant capital expenditure and treasury management implications. Careful consideration will need to be given to the affordability of additional borrowing, the amount of income receivable to support any borrowing over the period of the deal and any risk implications on the Council's Treasury Management Strategy. No figures are assumed in the Council's Capital Programme or within this report. Any amounts required will represent new commitments over and above the existing capital programme and these will have to be incorporated into the Prudential and Treasury management indicators at the stage that more detail is known.

## 7. Treasury Management and Prudential Indicators 2016-17

Details of the estimate for 2016-17 set out in the Council's Treasury Management Strategy and also the projected indicators for 2016-17 are shown below.

### Treasury Management Indicators 2016-17

The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks using the following indicators.

The Council needs to set the upper limits to its **Interest Rate Exposure** for the effects of changes in interest rates. There are two treasury management indicators that relate to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk.

No.		Treasury Management Strategy 2016-17 £m	Projection 31-03-2017 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2017	96.87	<b>96.87</b>
	Total Projected Principal Outstanding on Investments 31 March 2017	12.00	<b>20.00</b>
	<b>Net Principal Outstanding</b>	<b>84.87</b>	<b>76.87</b>
1.	<b>Upper Limit on fixed interest rates (net principal) exposure</b>	140.00	<b>59.62</b>
2.	<b>Upper Limit on variable interest rates (net principal) exposure</b>	50.00	<b>17.25</b>

The Section 151 Officer will manage interest rate exposures between these limits in 2016-17.

A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

The 19.87% shown in the table below relates to £19.25 million Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of their maturity date of 2054, as detailed in section 1 above. The Code requires the maturity of LOBO loans to be shown as the earliest date on which the lender can require payment, i.e. the next call date which is January 2017, however, the lender is not expected to exercise this option due to current low interest rates, so the maturity date is actually uncertain but is shown in the "Under 12 months" category as per the Code.

No	Maturity structure of fixed rate borrowing during 2016-17	Upper limit	lower limit	Projection 31-03-17
3.	Under 12 months	50%	0%	<b>19.87%</b>
	12 months and within 24 months	25%	0%	<b>0.00%</b>
	24 months and within 5 years	50%	0%	<b>0.00%</b>
	5 years and within 10 years	60%	0%	<b>12.47%</b>
	10 years and above	100%	40%	<b>67.66%</b>

The **Upper Limit for Total Principal Sums invested over 364 days** indicator controls the amount of longer term investments which mature beyond the

period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		Treasury Management Strategy 2016-17 (Limit) £m	Projection 31-03-17 £m
4.	Upper Limit for Total Principal Sums Invested for more than 364 days	15	6

### Prudential Indicators 2016-17

The following Prudential Indicators are based on the Council's capital programme which is subject to change.

The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure is funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2016-17 £m	Projection 31-03-17 £m
1	<b>Estimates of Capital Expenditure</b> Non – HRA	43.55	47.10
	<b>Total Capital Expenditure</b>	<b>43.55</b>	<b>47.10</b>
	<b>Financed by :-</b>		
	Capital Grants and Contributions	12.55	17.54
	Capital Receipts	17.20	14.81
	Revenue Contribution to Capital	7.46	9.12
	<b>Net Financing Need for Year</b>	<b>6.34</b>	<b>5.63</b>

The capital expenditure figures have changed from the Treasury Management Strategy 2016-17 as the capital programme approved by Council on 10 March 2016 has been amended to include new approved schemes and to incorporate slippage of schemes identified as part of the capital monitoring and a change in the profile of funding and prudential borrowing. This has resulted in a decrease in the Net Financing Need for 2016-17.

The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to finance capital expenditure and forms the basis of the charge to the General Fund under the Prudential Code system.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP). The actual MRP charge needs to be prudent and the methodology is detailed in the Council's MRP policy in the TMS 2016-17. The MRP requirement for the PFI Scheme and the Innovation Centre will be equivalent to the write down of the liability for the year and is met from existing budgets.

No.	Prudential indicators For Prudence	Est. Treasury Management Strategy 2016-17 £m	Projection 2016-17 £m
<b>2</b>	<b>Capital Financing Requirement (CFR)</b>		
	Opening CFR (1 April 2016) excluding other LTL	155.44	155.07
	Opening PFI CFR	18.79	18.79
	Opening Innovation Centre	0.72	0.72
	Opening HALO	0.84	-
	Opening Coychurch Crematorium	-	0.13
	<b>Total Opening CFR</b>	<b>175.79</b>	<b>174.71</b>
	Movement in CFR excluding other LTL	(0.18)	(0.89)
	Movement in PFI CFR	(0.55)	(0.55)
	Movement in Innovation Centre CFR	(0.05)	(0.05)
	Movement in HALO CFR	(0.12)	-
	Movement in CREM CFR		(0.05)
	<b>Total Movement in CFR</b>	<b>(0.90)</b>	<b>(1.54)</b>
	<b>Closing CFR (31 March 2017)</b>	<b>174.89</b>	<b>173.17</b>
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	6.34	5.63
	Minimum and Voluntary Revenue Provisions*	(7.24)	(7.17)
	<b>Total Movement</b>	<b>(0.90)</b>	<b>(1.54)</b>

Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and includes MRP for the Public Finance Initiative (PFI) and the Innovation Centre

### Limits to Borrowing Activity

The Council's long term borrowing at the 30 September 2016 was £96.87 million as detailed in section 1 the Treasury Position above. External borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. As the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.



The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown below:

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy	Projection 31-03-17
	<b>Gross Debt 31 March</b>	<b>2016-17 Est. £m</b>	<b>£m</b>
<b>3</b>	External Borrowing	96.87	96.87
	Long Term Liabilities (including PFI)	22.50	21.77
	<b>Total Gross Debt</b>	<b>119.37</b>	<b>118.64</b>

Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, debt will only be for a capital purpose. The Council needs to ensure that external debt does not, except in the short term, exceed the Capital Financing Requirement for 2016-17. The table below shows that the Council is on target to comply with this requirement.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy	Projection 31-03-17
		<b>2016-17 £m</b>	<b>£m</b>
<b>4</b>	<b>Gross Debt &amp; the CFR</b>		
	Total Gross Debt	119.36	118.64
	Closing CFR (31 March 2017)	<b>174.89</b>	<b>173.17</b>

A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure. These are detailed below and confirms that the Council is well within the limit set :-

- The **Authorised Limit** for External Debt – this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members.
- The **Operational Boundary** for External Debt – this is not an actual limit and actual borrowing could vary around this boundary during the

year. It is based on the probable external debt during the course of the year.

No.	Prudential indicators For Prudence	Treasury Management Strategy 2016-17 £m	Projection 31-03-17 £m
<b>5</b>	<b>Authorised limit for external debt -</b>		
	Borrowing	140	
	Other long term liabilities	30	
	<b>Total</b>	<b>170</b>	
<b>6</b>	<b>Operational Boundary</b>		
	Borrowing	105	
	Other long term liabilities	25	
	<b>Total</b>	<b>130</b>	
	<b>Borrowing</b>		<b>97</b>
	<b>Other long term liabilities</b>		<b>22</b>
	<b>Total</b>		<b>119</b>

### Prudential Indicators for Affordability

The Prudential Code Indicators Numbered 1 to 6 above cover the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

The indicator the **Ratio of Financing Costs to Net Revenue Stream** demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by the WG in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on Treasury Management activities and the MRP charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers.

No.	Prudential Indicator for Affordability	Estimate Treasury Management Strategy 2016-17	Projection 2016-17
<b>7.</b>	<b>Ratio of Financing Costs to Net Revenue Stream</b>	5.24%	5.00%

The indicator of the **Incremental Impact of Capital Investment Decisions on Council Tax** identifies the estimate of the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements that have occurred since the Capital Programme was approved for the year. This is a purely notional calculation designed to show the effect of changes in capital investment decisions.

No.	Incremental Impact of Capital Investment Decisions on Council Tax	Estimate Treasury Management Strategy 2016-17	Projection 2016-17
8.	Increase in Band D Council Tax as per Capital Programme	£ 4.75	£ 4.75

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

24 NOVEMBER 2016

### REPORT OF THE CHIEF INTERNAL AUDITOR

#### INFORMATION AND ACTION REQUESTS BY COMMITTEE

**1. Purpose of Report**

1.1 To summarise for Members the actions and information requests made by the Audit Committee at its last meeting on the 29<sup>th</sup> September 2016.

**2. Connection to Corporate Improvement Objectives / Other Corporate Priorities**

2.1 Internal Audit's work impacts on all of the Corporate Improvement Objectives and other Corporate Priorities.

**3. Background**

3.1 Internal Audit conducts reviews according to an annual audit plan and reports findings to Audit Committee.

**4. Current situation / proposal**

4.1 A summary of actions and information provided is contained in the following table:

Audit Committee Date	Action /Request	Officer Responsible	Comment / Action / Resolution	Current Status
21 <sup>st</sup> April 2016	In response to a question from the Committee, the Chief Internal Auditor stated that she would provide a report to the Committee on the high percentage of savings achieved in Legal and Regulatory Services.	Head of Finance and CIA	Clarification from Members was sought at the meeting held on the 30 <sup>th</sup> June meeting in order to understand what additional information was required. As a consequence of this an ongoing piece of work is underway.	Outstanding

**5. Effect upon Policy Framework & Procedure Rules.**

5.1 None

**6. Equality Impact Assessment.**

6.1 There are no equality implications.

**7. Financial Implications.**

7.1 There are no financial implications regarding this report.

**8. Recommendation.**

8.1 That the Committee notes this report.

**Helen Smith**  
**Chief Internal Auditor**  
**24<sup>th</sup> November 2016**

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**Background Documents**

None

## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

24 NOVEMBER 2016

#### REPORT OF THE CHIEF INTERNAL AUDITOR

#### COMPLETED AUDITS

##### 1. Purpose of Report.

1.1. To summarise for Members the findings of the audits recently completed by Internal Audit Shared Service.

##### 2. Connection to Corporate Improvement Objectives / Other Corporate Priority.

2.1. Internal Audit's work impacts on all the Corporate Improvement Objectives/other Corporate Priorities.

##### 3. Background

3.1. Internal Audit conducts reviews according to an annual audit plan and reports a summary of the findings to Audit Committee.

##### 4. Current situation / proposal.

4.1. Recently completed audits relating to 2015/16 and 2016/17 are summarised in **Appendix A** and is attached to this report.

4.2. Members are invited to raise any issues on these audits or to request the production of a fuller report at the next meeting.

##### 5. Effect upon Policy Framework & Procedure Rules.

5.1. None

##### 6. Equality Impact Assessment.

6.1 There are no equality implications.

##### 7. Financial Implications.

7.1. None

##### 8. Recommendation.

8.1. That Members consider the summary of completed audits to ensure that all aspects of their core functions are being adequately reported.

**Helen Smith**  
**Chief Internal Auditor**  
**24<sup>th</sup> November 2016**

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**Background documents**

Internal Audit reports relating to the above audits held within the Internal Audit Division



**2015/16 & 2016/17 Completed Audits****Reported at the 24<sup>th</sup> November 2016 Audit Committee Meeting**

Report Title	System Overview	Department & Directorate	Work Finalised	Audit Days	Key Messages	Audit Opinion
Housing Solutions (Homelessness)	<p>The Housing (Wales) Act 2014 strengthens the duty on local authorities to take reasonable steps to prevent and relieve homelessness, with an emphasis on prevention and service user engagement. This is being achieved in BCBC by means of a number of initiatives including:</p> <ul style="list-style-type: none"> <li>• Social Housing Allocations Policy</li> <li>• Common Housing Register</li> <li>• Supported Accommodation</li> <li>• Homelessness Prevention Fund</li> <li>• Partnership arrangements</li> </ul> <p>The audit review was confined to the Housing Solutions section and the effectiveness of the processes in place to aid in the prevention of homelessness.</p>	Housing & Community Regeneration, Operational and Partnership Services Directorate	October 2016	20 days	<p>During the Audit a number of strengths and areas of good practice were identified as follows:</p> <ul style="list-style-type: none"> <li>▪ The Customer Relationship Management System (CRM) has a dedicated section relating to Housing Solutions and has a comprehensive reporting function.</li> <li>▪ The Housing Solutions team is working towards increased provision of supported accommodation.</li> </ul> <p>The key issues identified which need to be addressed relate to:</p> <ul style="list-style-type: none"> <li>▪ The expiry of the framework contracts for B&amp;B accommodation and the requirement to ensure that required checks are performed and evidenced.</li> <li>▪ Accuracy of the billing</li> </ul>	Reasonable

Report Title	System Overview	Department & Directorate	Work Finalised	Audit Days	Key Messages	Audit Opinion
					<p>process for the recovery of expenditure for bonds and rent in advance, removal and storage costs, rent arrears and collection of tenants' contributions towards the cost of emergency accommodation.</p>	
Sharepoint	<p>SharePoint is used as a platform for Bridgend, the intranet site for staff of Bridgend County Borough Council, as well as isolated sub-sites and workspaces that are used for projects and collaborative working.</p>	<p>ICT, Operational and Partnership Services Directorate</p>	<p>Sept 2016</p>	<p>10 days</p>	<p>No significant issues were identified during the course of the audit. The following strengths were noted:</p> <ul style="list-style-type: none"> <li>▪ The set-up of sites and workspaces within BCBC was seen to comply with Microsoft's SharePoint Governance Planning whitepaper for all sites to follow a consistent baseline design, thus helping to improve usability across sites.</li> <li>▪ The page history within SharePoint provides an audit log of amendments by user, date and time. Additionally, version control is in operation to differentiate between new versions and previous versions when changes are</li> </ul>	<p>Substantial</p>

Report Title	System Overview	Department & Directorate	Work Finalised	Audit Days	Key Messages	Audit Opinion
					made. This utilises track changes to allow any version to be directly compared against any other previous version.	
Waste Management PI's - Zero Waste	<p>The Welsh Government has set a target for all Local Authorities to recycle /compost 52% of its waste by 2020, rising to 70% by 2025. If Local Authorities fail to achieve their targets, the Welsh Government is able to impose financial penalties of £200 per tonne.</p> <p>In 2014/15, BCBC was set a limit of 20,976 tonnes of Biodegradable Municipal Waste (BMW) sent to landfill. It was reported by Natural Resources Wales that 5,880 tonnes was sent to landfill and the Authority therefore achieved its target. The target set for BCBC in 2015/16 was 20,000 tonnes and only 8,358 tonnes were sent to landfill.</p>	Neighbour-hood Services,  Communities Directorate	Sept 2016	16 days	<p>No significant issues were identified during the course of the audit and therefore no recommendations were made.</p> <p>A number of strengths and areas of good practice were identified as follows:</p> <ul style="list-style-type: none"> <li>▪ The 2015/16 waste data has been validated by Natural Resources Wales.</li> <li>▪ There is sufficient source evidence through weighbridge tickets and spreadsheet reports to support waste figures entered into the Waste Data Flow System.</li> <li>▪ Quarterly returns for 2015/16 were submitted on time and in accordance with the Natural Resources Wales timetable.</li> </ul>	Substantial

Report Title	System Overview	Department & Directorate	Work Finalised	Audit Days	Key Messages	Audit Opinion
HR Self Service	<p>HR is in the process of rolling out an extra element of Trent to all employees in order that they can access their own details via a web based interface known as Employee Self Service (ESS). Employees designated as being a line manager will also have access via Manager Self Service (MSS).</p> <p>iTrent Employee self-service is a simple online portal which provides a quick, reliable and convenient way for staff to access their personal details and their payslip information. iTrent ESS allows staff to ensure that their personal details are up to date, such as address, equality information and emergency contacts and amend them where necessary</p>	<p>Human Resources and Organisational Development, Operational and Partnership Services Directorate</p>	October 2016	8 days	<p>Identified strengths include:</p> <ul style="list-style-type: none"> <li>▪ The ESS module enables employees to take ownership of their own information and provide a central point of reference for employees regarding employment, training and personal details. This should reduce the number of routine queries received by HR.</li> <li>▪ Line Managers can instantly access employee data and keep on top of team absence. The MSS portal also provides the functionality to review and authorise annual leave.</li> <li>▪ Both employees and managers have demonstrated a positive attitude towards the introduction of self-service.</li> </ul> <p>Recommendations were made in respect of:</p> <ul style="list-style-type: none"> <li>▪ HR have not yet identified whether each user with access to self-service has the correct reporting manager but this will need to</li> </ul>	Substantial

Report Title	System Overview	Department & Directorate	Work Finalised	Audit Days	Key Messages	Audit Opinion
					<p>be done prior to the annual leave element being rolled out.</p> <ul style="list-style-type: none"> <li>▪ Working patterns need to be reviewed to ensure they are correctly input to Trent, particularly if an employee works variable hours or is employed on a casual contract. This could cause implications for an individual's leave balance if hours are incorrect on a day the employee has annual leave authorised.</li> </ul>	
Absence Management	<p>The objective of the audit was to ensure that the Authority has robust systems in place for recording absence and actively monitoring absence levels with a view to reducing them. A review of Absence with School based staff will be undertaken as part of a separate audit.</p> <p>The Resources Directorate Business Plan documents that a priority of the Resources Directorate is to <i>'Provide advice and support to the Council in reducing levels of sickness</i></p>	Human Resources and Organisational Development, Operational and Partnership Services Directorate	October 2016	24 days	<ul style="list-style-type: none"> <li>▪ The BCBC sickness policy has accompanying Managers Guidelines which have recently been updated. The arrangements in respect of Absence Management and Occupational Health are detailed in these two documents</li> <li>▪ All documentation and associated support mechanisms for absence management have been reorganised into "toolkit form" which includes newly developed FAQ's, to enable</li> </ul>	Substantial

Report Title	System Overview	Department & Directorate	Work Finalised	Audit Days	Key Messages	Audit Opinion
	<p><i>absence.</i> There are a number of milestones and indicators set against this priority to support the Council in achieving reduced sickness absence levels.</p> <p>For the period 2013/14 to 2015/16 the number of working days lost per FTE due to sickness has marginally increased from 9.8 to 10.85 and is above the public sector average.</p>				<p>easy access to all the available information.</p> <ul style="list-style-type: none"> <li>▪ Monitoring reports are produced by HR in order to identify outstanding documents in relation to sickness absence and to make Managers aware of their sickness levels.</li> </ul> <p>Recommendations have been made in the following areas:</p> <ul style="list-style-type: none"> <li>▪ Between April 2016 and July 2016 only 31 attendees across the entire Council had attended absence management training courses.</li> <li>▪ Not all supporting documentation is stored consistently. Some documents are indexed to information@work and others are retained in the HR Absence outlook mailbox.</li> <li>▪ There is inconsistent practice in chasing absence documentation across the Council.</li> </ul>	

## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

24 NOVEMBER 2016

### REPORT OF THE CHIEF INTERNAL AUDITOR

#### INTERNAL AUDIT – OUTTURN REPORT – APRIL TO OCTOBER 2016

#### 1. Purpose of Report.

1.1 The purpose of this report is to inform the Audit Committee of actual Internal Audit performance against the seven months of the audit plan year covering April and October 2016.

#### 2. Connection to Corporate Improvement Plan / Other Corporate Priority.

2.1. The work of audit is intended to assist in the achievement of all corporate and service objectives.

#### 3. Background

3.1. The 2016/17 Internal Audit Plan was submitted to the Audit Committee for consideration and approval on the 21<sup>st</sup> April 2016. The Plan outlined the assignments to be carried out and their respective priorities.

3.2. The Plan provided for a total of 1,053 productive days to cover the period April 2016 to March 2017.

#### 4. Current situation / proposal

4.1. The following table shows 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 is shown at **Appendix A**.

Directorates	2016/17 Full Year Plan Days	Proportion of Plan Days Available for April to Oct. 2016	2016-17 April to Oct. Actual Days delivered
CEX - Finance	130	76	90
Operational & Partnership Services	105	61	99
Education & Family Support	155	90	87

Communities	128	75	47
Social Services & Wellbeing	105	61	32
Cross Cutting Including: External Client, – Unplanned and Fraud & Error)	430	251	292
<b>TOTAL PRODUCTIVE DAYS</b>	<b>1,053</b>	<b>614</b>	<b>647</b>

4.2. The figures show that 647 actual days have been achieved, which is 33 days more than the expected target of 614 days.

4.3. At present the overall structure of the Section is based on 18 Full Time Equivalent (FTE) employees. However, at the end of the Financial Year 2015/16, the Section was carrying 4 FTE vacant posts, this has now increased to 6 FTE vacant posts but arrangements are in place to undertake a recruitment campaign to address some of the shortfall in staff resources.

4.4. At the end of the period, 17 reviews / jobs have been completed and closed, 15 of which has provided management with an overall substantial / reasonable audit opinion on the internal control environment for the systems examined. Of the remaining 2 reviews, 1 identified significant weaknesses to such an extent that only limited assurance could be placed on the overall control environment and one, although necessary, was closed with no opinion being provided due to the nature of the work undertaken.

## **5. Effect upon Policy Framework & Procedure Rules.**

5.1. There is no effect upon the policy framework and procedure rules.

## **6. Equality Impact Assessment.**

6.1. There are no equality implications arising from this report.

## **7. Financial Implications.**

7.1. Effective audit planning and monitoring are key contributors in ensuring that the Council's assets and interests are properly accounted for and safeguarded.

## **8. Recommendation.**

8.1. That Members give due consideration to the Internal Audit Outturn Report covering the period April to October 2016 to ensure that all aspects of their core functions are being adequately reported.

**Helen Smith**  
**Chief Internal Auditor**  
**24<sup>th</sup> November 2016**



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Bridgend County Borough Council  
Internal Audit  
Innovation Centre  
Bridgend Science Park  
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CF31 3NA

**Background Documents**

None

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**Bridgend and Vale Internal Audit Service: Head of Internal Audit's Outturn Report April 2016 to October 16  
Bridgend County Borough Council.**

**Executive Summary**

**This report provides a summary of the work completed by the Bridgend and Vale Internal Audit Shared Service for seven months of the year covering the period April to October 2016 and provides the Head of Audit's initial opinion on the Council's framework of governance, risk management and internal control. Therefore, based on our work carried out so far this year, my overall opinion is that the Council's framework of governance, risk management and control is considered to be satisfactory.**

**Introduction**

The aim of the Shared Service is to help both Councils meet high standards of service delivery. Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic and effective use of resources. The Shared Service supports the Audit Committees in discharging their responsibilities for:

- Advising on the adequacy and effectiveness of the Council's risk management, internal control and governance processes in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2015.
- Supporting both the Chief Executive and the Head of Finance with their delegated responsibilities for ensuring arrangements for the provision of an adequate and effective internal audit.

- Monitoring the adequacy and effectiveness of the Internal Audit Shared Service and Director's / Heads of Service responsibilities for ensuring an adequate control environment.
- Supporting the Head of Finance in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.
- Ensuring that the Council's External Auditor in relation to our work on the main financial systems audits can place reliance on this.

### Definition of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (Source:- Public Sector Internal Audit Standards).

### Statutory Framework

Internal Audit is a statutory requirement for local authorities. There are two principal pieces of legislation that impact upon internal audit in local authorities; these are:-

- Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs.
- Section 5 of the Accounts and Audit (Wales) Regulations 2015 states that "a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

All principal local authorities subject to the Accounts and Audit (Wales) Regulations 2015 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS).

### Audit Committee

It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the Council's arrangements for

managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. In addition, Internal Audit provides a key source of assurance to the Committee as to whether controls are operating effectively.

### External Audit

The Council's External Auditor examines the work of Internal Audit on an annual basis in order to place reliance on this work when undertaking their audit work on the Council's Financial Statement of Accounts. The Council's External Auditors are the Wales Audit Office.

### Public Sector Internal Audit Standards (PSIAS)

The Standards the Internal Audit Shared Service works to are the Public Sector Internal Audit Standards. These standards set out:

- The definition of internal auditing;
- Code of ethics.
  
- International standards for the professional practice of internal auditing. These standards cover the following areas:
  - Purpose, authority and responsibility.
  - Independence and objectivity;
  - Proficiency and due professional care;
  - Quality assurance and improvement programme;
  - Managing the internal audit activity;
  - Nature of work;
  - Engagement planning;
  - Performing the engagement;
  - Communicating results;
  - Monitoring progress;
  - Communicating the acceptance of risks.

The PSIAS apply to all internal audit service providers, whether in-house or outsourced. During 2015-16 a self-assessment was undertaken to review our compliance with the Public Sector Internal Audit Standards. In addition, the Council's External Auditors undertook a desk top assessment of compliance and the verbal feedback received was that no issues were identified. Work is already

underway to ensure that the Bridgend and Vale Internal Audit Service is subject to an independent external assessment as required by the standards and the Council's Audit Committee.

### **Internal Audit Coverage – April 2016 to October 2016**

The level of internal audit resources required to examine all the Council's activities far exceed those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent appraisal function that internal audit provides.

Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on service delivery.

The Internal Audit Plan for 2016/17 is based, to a large extent, on the Council's Corporate Risk Register. This was complemented by:

- Priorities identified by Corporate Directors;
- Heads of Service key risks,
- The requirements of the Council's Section 151 Officer;
- External Audit and
- Those concerns / issues raised by Internal Audit in previous audits and our knowledge of potentially high-risk areas.

The Plan was submitted and approved by the Council's Audit Committee on 21<sup>st</sup> April 2016. The plan provided for a total commitment of 1,053 productive days for the year. Table 1 below provides the outturn for the service for the period April to October 2016 and further detail is provided in Appendix B. The current structure for the Shared Service comprises of 18 Full Time Equivalent employees (FTE's), which provides for a comprehensive Internal Audit Service to both the Vale of Glamorgan and Bridgend County Borough Councils. The Head of Audit aims to achieve best practice, but continues to take account of the issues of affordability at a time when both Councils are looking to make substantial reductions in costs. The service has already been vastly streamlined and continues to apply lean auditing risk based methodologies to its plan of work. At the commencement of this financial year, the service was carrying 4 vacant FTE posts, this has subsequently increased to 6 FTE, however, the section is in the process of recruitment to address the shortfall in staff resources.

Table 1 – Productive outturn for the period April 2016 to October 2016

Directorate	2016/17 Full Year Plan Days	2016/17 Expected days for the period April to Oct 16	2016/17 Actual Days achieved for the period April to Oct 16
Chief Executive / Resources	130	76	90
Operational Services and Partnerships	105	61	99
Education and Family Support	155	90	87
Communities	128	75	47
Social Services and Wellbeing	105	61	32
Cross Cutting – (Including External Client, Unplanned and Fraud and Error)	430	251	292
<b>Total</b>	<b>1,053</b>	<b>614</b>	<b>647</b>

As can be seen from the table above, the actual outturn for the period shows that the number of productive days expected to be achieved has been exceeded by 33 productive days. The Table further shows that the proportion of productive days achieved vary from that expected by Directorate activity.

A total of 17 reviews have been completed, 15 (88%) of which have been closed with either a substantial or reasonable assurance opinion level. 1 review (6%) has identified weaknesses in the overall control environmental. The remaining one review (6%), although necessary, it did not culminate in an overall audit opinion.

### Internal Control Weaknesses

There are no significant cross cutting internal control weaknesses identified so far this year which would impact on the Council's Annual Governance Statement. However, there specific weaknesses identified are listed below:-

**Bus Services Support Grant** – key issues: - The review identified that the current process of collating and submitting the kilometres travelled for the quarterly return is inadequate and led to large discrepancies going unidentified until the end of the claim period, resulting in an overpayment being received. Based on the findings, only **limited assurance** can be placed on the control environment due to the weaknesses identified. The discrepancies resulted in an over-claim for the year. This was subsequently rectified on the year end claim.

Our overall opinion on a system is based on both the materiality and impact of the system and our opinion on the internal control arrangements within the system. The combination of these factors then results in a category of risk to the Council as shown in Table 2 below:

**Table 2**

SYSTEM CONTROL		MATERIALITY AND IMPACT		
		HIGH	MEDIUM	LOW
1	<b>Satisfactory</b>	<b>Moderate</b>	<b>Minimal</b>	<b>Minimal</b>
2	<b>Reasonable</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Minimal</b>
3	<b>Limited – Significant Improvements required</b>	<b>Of Concern</b>	<b>Moderate</b>	<b>Moderate</b>
4	<b>No Assurance – Fundamental weaknesses identified.</b>	<b>Significant</b>	<b>Of Concern</b>	<b>Moderate</b>

Therefore, having regards to the reviews completed so far to-date and the overall opinions given, my overall opinion is the Council's overall internal control arrangements are considered to be **reasonable**, resulting in a "**minimal**" level of risk.



### Audit Recommendations – 2016/2017

Following each audit, report recipients are asked to complete an action / implementation plan showing whether they agree with the recommendations made and how they plan to implement them. The classification of each recommendation made assists management in focusing their attention on priority actions. For the period April to October 2016, Internal Audit has made a total of 23 recommendations, of which management has given written assurance that all of these will be implemented.

From time to time and where it is deemed appropriate to do so; Merits Attention recommendations will be made; by their very nature they relate specifically to an action that is considered desirable but does not necessarily have an impact on the control environment. To this end, these recommendations are not included on the Management Implementation Plan or logged on the Internal Audit Management Information system. Therefore a formal written response is not required from the client or included in table 3 below.

**Table 3**

<b>2016 -17 Recommendation Priority</b>	<b>No. Made</b>	<b>No. Agreed</b>	<b>No. Implemented</b>	<b>No. not Yet due to be actioned</b>	<b>No. Over due action date</b>
			<b>Complete</b>	<b>Pending</b>	<b>Outstanding</b>
<b>Fundamental</b> (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	0	0			
<b>Significant</b> (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	23	23	4	17	2
<b>Total</b>	<b>23</b>	<b>23</b>	<b>4</b>	<b>17</b>	<b>2</b>

## Audit Recommendations – 2015/2016

Table 4 below shows those recommendations which remain still outstanding from 2015/16.

**Table 4**

<b>Analysis of Overdue Implementation of Recommendations for 2015-16</b>	<b>No. Overdue</b>	<b>One month overdue Target date</b>	<b>Two months overdue target date</b>	<b>Three or more months overdue target date</b>
		<b>Amber</b>	<b>Amber</b>	<b>Red</b>
<b>Fundamental</b> (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	0	0	0	0
<b>Significant</b> (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	22	1	12	9
<b>Total</b>	<b>22</b>	<b>1</b>	<b>12</b>	<b>9</b>

## Internal Audit - Successes

Some of our successes so far this year include:

- Internal Audit Plans for 2015/16 were delivered in accordance with expectations
- Internal Audit Plans for 2016/17 have been approved by both Audit Committees and Corporate Management in a timely manner.
- We continue to provide an excellent internal audit provision to both Bridgend County Borough Council and the Vale of Glamorgan Council, so much so that both Audit Committees have supported the proposal to extend the Shared Service Partnership Agreement until 31<sup>st</sup> January 2018, which has been approved by both Cabinets.
- We continue to support staff in obtaining professional qualification including CIPFA - Corporate Governance, Institute of Internal Auditors (IIA) and the Association of Accounting Technicians (AAT) as well as continuing professional development (CPD).
- We continue to build on our excellent working relationship with Members, Chief Officers and staff within both Councils.

## Resources, Qualifications and Experience

The Head of Internal Audit requires appropriate resources at their disposal to undertake sufficient work to offer an independent opinion on the Council's internal control environment. This is a fundamental part of the Bridgend County Borough Council's governance arrangements. The Internal Audit Annual Plan was presented to the Audit Committee in 21<sup>st</sup> April 2016, which is based on a provision of 1,053 productive days.

The Bridgend County Borough Council is in a partnership agreement with the Vale of Glamorgan Council who host the Internal Audit Shared Service. As at the 1<sup>st</sup> April 2016 the staffing structure is listed in table 5 below.

Table 5

<b>2015-16 Staffing Structure</b>	<b>FTE</b>
Operational Manager Audit - Head of Audit	1
Principal Auditor	2
Group Auditor	2
Group Auditor (Information Systems)	1
Auditor (3 posts are vacant at present)	9.5
Trainee Auditor	1
Trainee Auditor (Information Systems) (vacant at present)	1
Administrative Assistant	0.5
<b>Total</b>	<b>18</b>

The total resource of 18 Full Time Equivalents (FTE's) provides for a comprehensive Internal Audit Service. The Head of Audit aims to achieve best practice but continues to take account of the issues of affordability at a time when both Councils are looking to make substantial reductions in costs. The service has already been vastly streamlined and continues to apply lean auditing risk based methodologies to its plan of work. At the commencement of this financial year the Section was carrying 4 vacant posts, and this has recently increased to 6 vacant full time equivalent posts, however, a recruitment campaign is under way.

In accordance with the Public Sector Internal Audit Standards, the Head of Audit must ensure that Internal Auditors possess the knowledge, skills and competencies needed to perform their individual responsibilities. Internal Auditors are therefore encouraged to study for and obtain professional qualifications. In addition, it is a requirement of the standard that the Head of Audit must hold a professional qualification and be suitably experienced. The following information outlined in table 6 below demonstrates the experience and qualification mix for the Internal Audit Shared Service.

### Experience and Qualifications

**Table 6**

<b>No of Years Experience</b>	<b>No of years in Auditing</b>	<b>No of Years In Local Government</b>	<b>Professional Qualifications</b>	<b>No of Staff.</b>
<b>Up to 1 year</b>	<b>0</b>	<b>0</b>	Accountants (CIPFA; FCCA; ICAEW)	<b>3</b>
<b>1 to 2 years</b>	<b>0</b>	<b>0</b>	Certified Information Systems Auditor (CISA)	<b>2</b>
<b>2 to 5 years</b>	<b>4</b>	<b>2</b>	Institute of Internal Auditors – full membership and Prince2 Practitioner Level	<b>0</b>
<b>5 to 10 years</b>	<b>3</b>	<b>6</b>	Institute of Internal Auditors – practitioner level; part qualified or audit certificate	<b>2</b>
<b>Over 10 years</b>	<b>5</b>	<b>4</b>	Association of Accounting Technicians (AAT)	<b>1</b>
			Part Qualified AAT	<b>3</b>
			Studying (CISA, AAT, IIA, CIPFA etc.)	<b>1</b>
<b>Total Staff</b>	<b>12</b>	<b>12</b>	<b>Total</b>	<b>12</b>

All staff are encouraged to attend relevant courses and seminars to support their continual professional development. All staff have the opportunity to attend courses run by the Welsh Chief Auditors Group on a diverse range of topics. Individuals keep records of their continuing professional development based on their professional body requirements.

## Internal Audit – Other Activities

- **Anti-Fraud** – the Internal Audit Shared Service continues to assist in promoting an anti-fraud and corruption culture. We have ensured that staff are made aware; via StaffNet; of any recent scams and frauds that have occurred in both the public and private sectors.
- **National Fraud Initiative** – The Council, via Internal Audit, has again participated in the National Fraud Initiative (NFI) as part of the statutory external audit requirements. This brings together data from across the public sector including local authorities, NHS, other government departments and other agencies to detect “matches” i.e. anomalies in the data which may or may not be indicative of fraud, for further investigation.
- **Advice and Guidance** – Internal Audit continues to provide advice and guidance both during the course of audits and responding to a wide range of ad-hoc queries.
- **Attendance at and contribution to, working groups etc.** - The Section continues to contribute to the development of the Council and ensuring that we are up to date with best practice by attending the following:-
  - Audit Committee;
  - Scrutiny Committees (as required);
  - Cabinet (as required);
  - Corporate Management Team (as required);
  - Corporate Improvement Group.
  - The Welsh Chief Auditors Group and all its sub-groups (including South Wales Computer Audit Group; South East Wales Education Audit Group; Social Services Audit Group).
- **Investigation Work** – We continue to support Senior Management in providing resources and expertise in investigating allegations of fraud and misappropriation.

## Internal Audit – Review of Performance Management and Quality Assurance Framework

The Public Sector Internal Audit Standards requires that the Head of Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. The section has a “Quality Assurance and Improvement Programme (QAIP) that has been presented to, and approved by, the Audit Committee.

1. **Performance Management** – the section’s key performance indicators are set out in the section below.
2. **Quality Assurance** – each individual audit report and supporting working papers / documents are reviewed by either a Principal Auditor or the Head of Audit. Appropriate standards have been set by the Head of Internal Audit in accordance with the Standards. The file reviews ensure the audits comply with the Section’s internal processes and procedures and the overall Public Sector Internal Audit Standards. Where necessary corrective action is taken.

## Internal Audit – Performance Indicators

The Section has one key indicator as follows: **The Percentage of Audits Completed in Planned Time**

**Table 7**

**Justification of this performance indicator:** to ensure that Internal Audit provides sufficient coverage to ensure that the requirements of the Council’s Section 151 Officer and External Audit are met and that Internal Audit can give sufficient assurance to the Audit Committee regarding the Council’s system of internal control, risk management and governance arrangements.

Target: 89.7%	<p><b>Quarter 2 performance - April to September 2016 Achievement: 88.56% Vale - 68.76%</b></p> <p><b>BCBC</b></p> <p><b>Overall Achievement: Number of Audit Completed = 51</b>  <b>Number completed within planned time = 42</b></p> <p><b>Overall percentage achieved = 82.35%</b></p>
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**Therefore from the number of audits completed for the two quarters of this financial year combined for both Councils; the**

**target has not been achieved. ☹**

The Section started the year with 4 vacant posts and this has increased to 6 at present.

The Section also participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2015/16 have recently been received and are as follows:

**Table 8**

<b>Performance Indicator 2015/2016</b>	<b>IASS Performance For the Vale 2015/16</b>	<b>Overall Average Performance 2015/16</b>	<b>Overall Average Performance 2014/15</b>
Percentage of Planned Audits Completed	99%	85%	84%
Number of Audits Completed	135	96	111
Percentage of Audits Completed in Planned Time	93%	68%	71%
Percentage of directly chargeable time, actual versus planned	103%	90%	88%
Average number of days from audit closing meeting to issue of draft report.	9.5 days	7.3 days	8.2 days
% of staff leaving during the Financial Year	3%	10%	11%

As can be seen from the table above, the Section is performing well. This, together with our overall performance indicators for the service provided to Bridgend places us once again in the top quartile. It should be noted that the overall average performance for 2015/16 is only based on 64% of the Welsh Chief Auditors Group returning their performance figures (8 councils have failed to return their data sets).

As can be seen from the table above, the Section is performing well. This, together with our overall performance indicators for the service provided to the Vale of Glamorgan Council places us once again in the top quartile.

## Governance Arrangements

The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controls its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

Good Governance is about doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable way.

Bridgend County Borough Council is committed to the principles of good governance and as a result has adopted a formal Code of Corporate Governance (COCG) for the last six years. The Code of Governance is based upon the six principles as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Society of Local Authority Chief Executives (SOLACE) and incorporates the “Making the Connections” governance principles and values as set out by the Welsh Government.

The COCG also makes provision for a joint commitment by Members and Officers to the principles it contains, as well as a statement of assurance jointly signed by the Leader of the Council and the Chief Executive. This helps to ensure that the principles of good governance are not only fully embedded but also cascade through the Council and have the full backing of the Leader of the Council and elected Members, as well as the Chief Executive and the Corporate Management Board. The work of the Internal Audit Shared Service represents a fundamental function in delivering the Council’s Corporate Governance responsibilities.

Across the whole of the United Kingdom, local councils are facing unprecedented challenges following reduced Government funding and increased demands on essential services. Between 2016-17 and 2019-20, the Council is expecting to have to make budget reductions of up to £35.5 million. Budget cuts of this scale present a significant challenge that will require the Council to make many difficult decisions about what services can be maintained and what cannot.

The Council remains unwavering in its commitment towards improving and finding ways of delivering local services, providing better outcomes for residents and achieving savings that will ensure they can deliver a succession of balanced budgets.



As stated earlier in the report, based on the work completed so far to date by the Internal Audit Shared Service for the period April to August 2016; no significant cross cutting control issues have been identified that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific and the recommendations made to improve the overall control environment have been accepted and are being / will be implemented.

It is clear that the scale of the challenges to come will mean that "business as usual", however well managed, will not be enough. The challenge will be to consider alternative delivery models for services across the Council and this will be essential to mitigate the impact of cuts and assist in continuing to provide priority services. Therefore, as the Council continues to experience reduced resources, increased demands on services and new and innovative forms of delivery; there is a need to ensure that the control environment; including governance and risk management; remains robust, proportionate and is as efficient and effective as possible.

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<u>Code</u>	<u>Job</u>	<u>Job Name</u>	<u>Days</u>	<u>Budget</u>	<u>Date Commenced</u>	<u>Date Closed</u>	<u>Opinion</u>
<b>ASSURANCE</b>							
	<b>Directorate</b>	<b>CHIEF EXECUTIVE - RESOURCES</b>					
	613 BCBC-	Advice & Guidance CEX / Resources	4.76	5.00	01/04/2016		
	622 BCBC -	NNDR c/fwd 15/16	5.84	5.00	01/04/2016	29/06/2016	Substantial
	625 BCBC -	C/F Creditors	18.75	15.00	01/04/2016	27/07/2016	Substantial
	631 BCBC -	BACS Security	1.79	3.00	01/04/2016	26/05/2016	Reasonable
	643 BCBC-	Corporate Change Fund	15.91	10.00	20/06/2016		
	650 BCBC -	Creditors Departmental Testing	28.70	15.00	11/07/2016		
	655 BCBC -	Creditor Authorisation Levels	13.65	15.00	25/07/2016		
<b>Total for</b>	<b>Directorate</b>	<b>CHIEF EXECUTIVE - RESOURCES</b>	<b>89.41</b>	<b>68.00</b>			
	<b>Directorate</b>	<b>OPERATIONAL SERVICES &amp; PARTNERSHIPS</b>					
<b>B</b>	616 BCBC-	Advice & Guidance Op Serv & P/ship	2.77	5.00	01/04/2016		
	621 BCBC -	Homelessness c/fwd 15/16	19.32	9.00	01/04/2016	17/10/2016	Reasonable
	624 BCBC -	C/F Firewalls	11.39	9.00	01/04/2016		
	628 BCBC -	Absence Management	23.58	24.00	01/04/2016	13/10/2016	Substantial
	640 BCBC -	ICT Asset Management Follow Up	7.77	5.00	21/06/2016		
	644 BCBC -	Sharepoint	9.97	10.00	01/07/2016	15/09/2016	Substantial
	648 BCBC -	HR Self Service Review	7.57	7.00	11/07/2016	06/10/2016	Substantial
	661 BCBC -	Info @ Work	14.59	10.00	05/09/2016		
	671 BCBC -	Open Contractor System	2.30	15.00	20/10/2016		
<b>Total for</b>	<b>Directorate</b>	<b>OPERATIONAL SERVICES &amp; PARTNERSHIPS</b>	<b>99.26</b>	<b>94.00</b>			
	<b>Directorate</b>	<b>EDUCATION AND FAMILY SUPPORT</b>					
<b>B</b>	614 BCBC -	Advice & Guidance Ed & Family Sup	0.88	5.00	01/04/2016		
	626 BCBC -	School Summary 15-16	5.37	6.00	01/04/2016	17/08/2016	Substantial
	636 BCBC -	EIG Verification	4.32	5.00	02/06/2016	28/07/2016	Reasonable
	649 BCBC -	Built Env Further Process Review	14.53	15.00	11/07/2016		
	656 BCBC -	Youth Services	10.24	15.00	21/07/2016		
	658 BCBC -	Youth Work Strategy Support Grant	1.22	2.00	29/07/2016	03/08/2016	Reasonable
	666 BCBC -	CRC	8.01	10.00	29/09/2016		
	667 BCBC -	School Absence Management	6.22	15.00	30/09/2016		
	668 BCBC -	Cornelli Primary School	0.44	5.00	04/10/2016		
	669 BCBC -	CRSA & Assurance Statements	0.71	10.00	04/10/2016		
	670 BCBC -	ICT in Primary Schools	11.52	20.00	06/10/2016		
<b>Total for</b>	<b>Directorate</b>	<b>EDUCATION AND FAMILY SUPPORT</b>	<b>63.45</b>	<b>108.00</b>			

	<b>Directorate</b>	<b>COMMUNITIES</b>					
<b>B</b>	612 BCBC - Advice & Guidance Communities		0.34	5.00	01/04/2016		
	638 BCBC - Achieving Zero Waste		16.22	20.00	08/06/2016	15/09/2016	Substantial
	641 BCBC - Townscape Heritage Initiative		12.94	10.00	13/06/2016		
	651 BCBC - Council Buildings Compliance		0.07	15.00	12/07/2016		
	663 BCBC - Supporting People Grant Verify		7.87	5.00	01/09/2016		
<b>Total for</b>	<b>Directorate</b>	<b>COMMUNITIES</b>	<b>37.43</b>	<b>55.00</b>			
	<b>Directorate</b>	<b>SOCIAL SERVICES AND WELLBEING</b>					
<b>B</b>	615 BCBC - Advice & Guidance SS & Wellbeing		0.47	5.00	01/04/2016		
	620 BCBC - Occupational Therapy c/fwd 15/16		12.06	10.00	01/04/2016	23/08/2016	Reasonable
	627 BCBC - Bus Svs Support Grant		6.96	7.00	08/04/2016	11/07/2016	Limited
<b>Total for</b>	<b>Directorate</b>	<b>SOCIAL SERVICES AND WELLBEING</b>	<b>19.49</b>	<b>22.00</b>			
	<b>Directorate</b>	<b>BCBC CROSS CUTTING</b>					
<b>B</b>	617 BCBC - Audit Planning		17.30	30.00	01/04/2016		
	618 BCBC - Audit Committee / CMB		26.69	30.00	01/04/2016		
	619 BCBC - Finalising 2015-16 Jobs		70.91	10.00	01/04/2016	31/08/2016	
	623 BCBC - PSIAS Compliance c/fwd 15/16		7.64	5.00	06/05/2016	01/07/2016	Substantial
	632 BCBC - Performance Indicators		15.37	20.00	16/05/2016	15/08/2016	Reasonable
	635 BCBC - General Follow up Admin		0.81	2.00	04/04/2016		
	637 BCBC - CAATs & Data Extraction		14.76	10.00	16/05/2016		
	639 BCBC- Cash Handling		15.47	16.00	06/06/2016	25/08/2016	Reasonable
	645 BCBC - Legal & Reg Savings		17.40	5.00	01/07/2016		
	654 BCBC - External Assurance Compliance		20.81	10.00	05/07/2016		
	657 BCBC - Overtime & Out of Hours		18.31	15.00	15/07/2016		
	665 BCBC - Data Breaches		5.27	10.00	19/09/2016		
<b>Total for</b>	<b>Directorate</b>	<b>BCBC CROSS CUTTING</b>	<b>230.74</b>	<b>163.00</b>			
<b>Total for Function</b>		<b>ASSURANCE</b>	<b>539.79</b>	<b>510.00</b>			
		<b>ANTI-FRAUD &amp; CORRUPTION</b>					
	<b>Directorate</b>	<b>BCBC CROSS CUTTING</b>					
<b>B</b>	630 BCBC - NFI		12.84	25.00	01/04/2016		
<b>Total for</b>	<b>Directorate</b>	<b>BCBC CROSS CUTTING</b>	<b>12.84</b>	<b>25.00</b>			
<b>Total for Function</b>		<b>ANTI-FRAUD &amp; CORRUPTION</b>	<b>12.84</b>	<b>25.00</b>			
		<b>GOVERNANCE</b>					
	<b>Directorate</b>	<b>EDUCATION AND FAMILY SUPPORT</b>					

<b>B</b>	660 BCBC - School Modernisation Programme	18.82	25.00	15/08/2016		
	662 BCBC - Minor Works (Ed & Family Support)	4.86	5.00	09/09/2016		
<b>Total for</b>	<b>Directorate EDUCATION AND FAMILY SUPPORT</b>	<b>23.68</b>	<b>30.00</b>			
	<b>Directorate COMMUNITIES</b>					
<b>B</b>	652 BCBC - Elections	9.66	15.00	12/07/2016		
<b>Total for</b>	<b>Directorate COMMUNITIES</b>	<b>9.66</b>	<b>15.00</b>			
	<b>Directorate BCBC CROSS CUTTING</b>					
<b>B</b>	629 BCBC - Final Accounts	2.91	5.00	01/04/2016		
	633 BCBC - Effectiveness of Audit Committee	3.21	2.00	01/04/2016	15/06/2016	Substantial
	634 BCBC - IASS Monitoring	8.61	10.00	01/04/2016		
	647 Porthcawl Harbour	6.93	5.00	04/07/2016		
	659 BCBC - Contract Monitoring	0.17	20.00	15/08/2016		
<b>Total for</b>	<b>Directorate BCBC CROSS CUTTING</b>	<b>21.82</b>	<b>42.00</b>			
<b>Total for</b>	<b>Function GOVERNANCE</b>	<b>55.17</b>	<b>87.00</b>			
	<b>RISK &amp; PERFORMANCE MANAGEMENT</b>					
	<b>Directorate SOCIAL SERVICES AND WELLBEING</b>					
<b>B</b>	653 BCBC - Establishments Financial Controls	11.76	10.00	14/07/2016		
	664 BCBC - Mental Health Act	0.61	15.00	19/09/2016		
<b>Total for</b>	<b>Directorate SOCIAL SERVICES AND WELLBEING</b>	<b>12.36</b>	<b>25.00</b>			
	<b>Directorate BCBC CROSS CUTTING</b>					
<b>B</b>	646 BCBC - Fleet Overview	26.99	20.00	01/07/2016		
<b>Total for</b>	<b>Directorate BCBC CROSS CUTTING</b>	<b>26.99</b>	<b>20.00</b>			
<b>Total for</b>	<b>Function RISK &amp; PERFORMANCE MAN</b>	<b>39.36</b>	<b>45.00</b>			
	<b>Grand</b>	<b>647.15</b>				

***Internal Audit***

**28/10/2016**

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

24 NOVEMBER 2016

#### REPORT OF THE CHIEF INTERNAL AUDITOR

##### SCHOOLS SUMMARY REPORT 2015/16

#### 1. Purpose of Report.

- 1.1 To present to Members a summary of the work undertaken by Internal Audit in relation to the school based audits conducted in the 2015/16 audit year.

#### 2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1 Internal Audit's work impacts on all of the Corporate Improvement Objectives /other Corporate Priorities.

#### 3. Background.

- 3.1 As previously reported to Members, in order to ensure that audit days available are used in the most effective way, changes were made to the 2015/16 school audit programme which allowed for more in depth coverage of high risk areas rather than undertaking cyclical school visits. To do this, all schools were issued with a Control Risk Self-Assessment questionnaire (CRSA) which enabled the schools to self-evaluate the controls they have in place to mitigate risk. In addition an Assurance Statement, which provides assurance that the Head Teacher and Chair of Governors are ensuring that the school has sufficient internal controls in place was requested from all schools. Therefore, the planned audit days for schools (112 days) could be utilised for more in depth reviews based on a robust risk assessment taking into account senior management requirements, previous reports, recent changes in key personnel such as Head Teachers or Clerks or any other concerns brought to Internal Audit's attention.

#### 4. Current situation / proposal.

- 4.1 During 2015/16, 60 CRSA's were issued to schools including the Pupil Referral Unit, of which 59 were returned. The completed CRSAs were evaluated by Internal Audit and any issues addressed with the individual school. No common trends or significant issues were identified and the overall control environment was evaluated as good.
- 4.2 Assurance Statements were issued, the purpose of which was for Head teachers and Chairs of Governors to acknowledge their responsibility in maintaining and operating the school in accordance with the Council's procedures and practices that uphold the internal control and assurance framework, and the Fair Funding Scheme for Schools. Only 30 Head teachers and 18 Chairs of Governors completed the Assurance Statement and it was found that some did not understand the form or its significance. In order to improve the response rate for 2016/17 this information and

its declaration together with an explanatory forward has been included on the CRSA questionnaire which should make the process more efficient.

- 4.3 In 2015/16 over £91 million was delegated to the Council's Secondary, Primary and Special Schools and of the 59 schools operating at year end, 7 schools, 4 primary and 3 secondary, were in deficit with a value of £621,969. All of these schools have been asked to produce a budget recovery plan. Of the 52 schools in surplus, 14 had surpluses that, under School Funding (Wales) Regulations 2010, are regarded as excessive and the Council may direct a governing body on how balances in excess of these limits may be spent or they can be clawed back. The Council has a policy whereby claw back can be exercised which has been applied in previous years. These schools have been requested to submit plans of how the balances will be spent which will be reviewed with the Corporate Director to determine any clawback of surplus funds.
- 4.4 During the year some specific risk based audits were undertaken. Of the 9 pieces of work, one was a grant claim so no audit opinion was applicable. Of the remaining 8 audits, five were given an audit opinion of reasonable and two were given limited assurance. No assurance could be given on the internal controls of one school initially, however a subsequent visit found that improvements had been made and reasonable assurance was subsequently given. The two limited assurance reports will be revisited again during the last quarter of 2016/17 to ensure that improvements to controls have been made.
- 4.5 During 2015/16 it was found that the move away from cyclical school audit visits has proved a success in ensuring that the Internal Audit resource is targeted effectively to those areas where they are most needed. A total of 104 days of the 112 days allocated were utilised. Certain control weaknesses were identified during the year and appropriate recommendations made and accepted, therefore, overall it was concluded that the control environment within schools was good.
- 4.6 As well as following up on the limited opinion reports and continuing with the assurance statements and the CRSA's; Internal Audit will continue to identify other audit areas base on risk; relevant changes in key personnel and discussions with Chief Officers in order to ensure that the necessary assurances can continue to be provided.

## **5. Effect upon Policy Framework& Procedure Rules.**

- 5.1 There is no effect upon the policy framework and procedure rules.

## **6. Equality Impact Assessment**

- 6.1 There are no equality issues.

## **7. Financial Implications.**

- 7.1 Effective audit planning and monitoring are key contributors in ensuring that the Council's assets and interests.

## **8. Recommendation.**



8.1 That the Committee gives due consideration to the content of this report to ensure that all aspects of their core functions are being adequately reported.

**Helen Smith**  
**Chief Internal Auditor**  
**24<sup>th</sup> November 2016**

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**Background Documents**  
None

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

24 NOVEMBER 2016

### REPORT OF THE HEAD OF FINANCE

#### UPDATE ON NATIONAL FRAUD INITIATIVE

##### **1. Purpose of Report.**

- 1.1 To present to Members for review and consideration a status report on the progress made to date on the National Fraud Initiative.

##### **2. Connection to Corporate Improvement Objectives/Other Corporate Priorities**

- 2.1 The report links to the improvement priority in relation to the Smarter Use of Resources.

##### **3. Background.**

- 3.1 The National Fraud Initiative (NFI) is a data matching exercise that helps to detect and prevent fraud and overpayments across the UK. Forty-three Welsh public sector bodies take part in the exercise, including local authorities, NHS bodies, police authorities, fire authorities, and Welsh Government. The Public Audit (Wales) Act 2004 gives the Auditor General for Wales the power to request data from organisations and undertake the data matching exercises.
- 3.2 The NFI has been run every 2 years since 1996, and to date, has been used to identify fraud and overpayments totaling over £30 million in Wales. The 2014-15 NFI resulted in the detection and prevention of overpayments worth £4.4 million.
- 3.3 Since the abolition of the Audit Commission in March 2015, the NFI has become part of the Cabinet Office, but is coordinated in Wales by the Wales Audit Office in collaboration with equivalent bodies in England, Scotland and Northern Ireland.
- 3.4 Participating organisations submit data to the NFI where it is matched against other data sets using specific criteria. The submitted information is wide ranging and includes data sets relating to housing benefits, council tax, payroll, creditors, licensing, disabled blue badges, concessionary travel, insurance claims, care homes and personal budgets.
- 3.5 Reports containing potential matches are then released to each organisation to investigate. It is important to note that where a match is found it is not in itself evidence of a fraud and may be an error or an inconsistency that requires further investigation. Historically, the NFI exercise has been conducted biennially although the Council Tax matching (run separately), has recently been changed to an annual process.
- 3.6 Data was submitted by the Council in October 2014 with the results being released in January 2015. Council Tax data is submitted separately and annually with

matches often being released the same day. The last Council Tax matches were released in December 2015.

- 3.7 For the 2016-17 exercise, data sets were extracted, checked and uploaded to the NFI secure website during October 2016 with the results expected to be released in January 2017. The Council Tax data will be submitted in December 2016 with the results being released the same day due to it only being matched to other internal data.
- 3.8 Internal Audit acts as the Key Contact and provides access to the reports on the NFI website to the relevant Council departments who are asked to investigate the matches and update the NFI website accordingly.

#### **4. Current situation / proposal.**

- 4.1 The NFI data matching exercise is an ongoing one, and the data represents the status as at a specific point in time. For departments with matches that remain open, the NFI website is continually being updated either on an individual match basis or on a whole report basis where work has been undertaken offline.
- 4.2 Committee Members were provided with an update report in November 2015 of the progress made by departments of the results that were released in January 2015. The table attached in Appendix A provides a further update of those results and the progress made so far by departments against each report group and the types of resolutions being achieved. The exception is Council Tax matches, which relate to the latest Council Tax matches released in December 2015.
- 4.3 In some reports certain matches will be highlighted as being stronger and the NFI recommend these are given priority. However, the NFI advise that each organisation prioritises the order in which matches are investigated depending on the resources available.
- 4.4 Creditor Matches
  - 4.4.1 Members will note that only a small number of the total matches in relation to Creditors Standing Data and Creditors History have been reviewed and investigated. Such matches include creditors who have been set up on the system more than once, or repeat value payments to the same supplier. In many instances both these scenarios will be genuine, for example if they are a standard supplier (SUP), plus also registered under the Construction Industry Tax Scheme (CIS), in receipt of a Grant (GRA), etc., or in receipt of repeat value payments on a monthly or quarterly basis.
  - 4.4.2 Since 2010 the Central Payments team has invested in AP Forensics software that proactively matches creditor standing data and payment data on a daily basis. This allows duplicate suppliers to be removed and payments to be stopped and reviewed prior to the creditor actually being paid.
  - 4.4.3 In recent years, Internal Audit has undertaken specific reviews of the AP Forensics system and deemed the matching exercises it performs to be superior to those undertaken as part of the NFI. Furthermore it is worth noting that the daily checks performed are proactive as opposed to the NFI ones which relate to a historical point in time. In April 2015 the Corporate Director - Resources gave approval for

the NFI matches specifically in relation to creditors to no longer be investigated, as reported matches will have already been identified, investigated and where necessary corrected via the internally generated matches.

4.4.4 The only NFI matches still reviewed by the Central Payments team are in relation to VAT, as AP Forensics does not have this capability.

#### 4.5 Payroll to Creditor Matches

4.5.1 As part of the 2015/16 Internal Audit plan, it was agreed that as a one off exercise, Internal Audit would review the recommended Payroll to Creditor matches. This did not uncover any issues and all matches were deemed genuine, however advice was provided to one service area about the need for departments to maintain declarations of interest for their staff.

4.5.2 As future Payroll to Creditor matches are released, a decision will need to be made regarding responsibility for reviewing these matches, as this is not a resource that Internal Audit can continually provide. Wherever that responsibility lies, appropriate access to systems and training and awareness will need to be undertaken in order for the potential risk of fraud and inappropriate action to be properly identified.

#### 4.6 Housing Benefit Matches

4.6.1 The current NFI exercise has identified 1,425 matches in relation to Housing Benefits, compared to 1,985 in the 2012 exercise.

4.6.2 In previous years the matches generated with links to Housing Benefits have been reviewed, investigated and appropriate follow up action taken by the Housing Benefit Fraud Investigation Team. From 1<sup>st</sup> November 2015 the fraud team moved to the DWP as part of the Single Fraud Investigation Service. One Fraud Investigator has been retained within the Council and over the last year work recommenced on reviewing the matches, with 100% of the matches now investigated.

4.6.3 As a result of reviewing the matches, £34,870.92 worth of overpayments have been identified, of which £34,592.66 is being recovered. Included in these figures are 8 cases of confirmed fraud amounting to £20,310.42. Aside from attempting to recover the amount claimed fraudulently, no further action was taken in 7 of the cases and an administration penalty was imposed in the final case.

#### 4.7 Concessionary Travel Passes

4.7.1 For a number of NFI cycles, large volumes of matches have been identified in relation to Concessionary Travel Passes. In the previous NFI update to Audit Committee (November 2015), it was noted that only a small number of matches had been dealt with due to resource implications and changes in personnel. However, over the past few months, significant progress has been made with nearly 85% of matches resolved. It should be noted that the concessionary travel data was submitted again in October 2016 so the 15% of matches that have not been processed will reappear on the next release, planned for January 2017.

4.7.2 The purpose of these matches is to appropriately cancel the Concessionary Travel Passes of individuals that appear on the DWP deceased list, for whom the Council

has not already been notified. Whilst there is a compensating control in that all passes contain a photo of the pass owner, this control is only as good as the check the driver performs when a passenger gets on the bus. The ultimate control is the deactivation of the pass thus preventing it swiping when attempting to be used on a bus.

4.7.3 As a result of the low investigation rate in previous years and at the request of the then Corporate Director Resources, an Audit review was undertaken in this area in late 2015/16. It was confirmed that as a result of the concessionary pass holders not being investigated promptly, this had resulted in continued use of cards for periods of time after the card holder had been reported as deceased.

#### 4.8 Council Tax Matches

4.8.1 As mentioned in 3.6, Council Tax data is sent to the NFI annually, once the electoral register is updated each December. Matching is completed automatically and results often returned the same day. The last exercise from December 2015 resulted in 661 matches being released with 643 having been closed. The financial outcomes total is £66,724.04 of which £42,318.20 is being recovered. The difference is made up of incorrect discounts where no recovery is necessary, for example, where the balance is made up by the Council Tax Reduction Scheme.

### 5. **Effect upon Policy Framework & Procedure Rules.**

5.1 None

### 6. **Equality Impact Assessment**

6.1 There are no equality implications.

### 7. **Financial Implications.**

7.1 None as a direct consequence of this report. However, there are resource implications involved in preparation and submission of data and working through the resultant matches. Any resource implications in relation to recovery actions are met within current budgets. In return savings may be identified or money may be recovered.

### 8. **Recommendation.**

8.1 That Members give due consideration to the NFI update report.

**Randal Hemingway**  
**Head of Finance**  
**24<sup>th</sup> November 2016**

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**Background documents**

None

## Appendix A

Report Group	Total Matches	Total Recommended Matches	Total Processed	% of Recommended Matches Processed	% of Total Matches Processed	Outcomes / Example Resolution
Blue Badge Parking Permit	327	270	327	100%	100.00%	Example resolution: Pass cancelled and system updated.
Concessionary Travel Pass	3,329	3,329	2812	84.46%	84.46%	Example resolution: Pass cancelled and system updated. See Ref 4.6.
Council Tax	661	661	649	98.18%	98.18%	Example resolution: Withdrawal of discount and instigation of recovery. Total outcomes: £67,583.02 of which £43,177.18 is being recovered. See Ref 4.7.
Creditors History	4,745	228	20	8.77%	0.42%	Internal controls are robust enough to not warrant investigation of majority of creditors NFI matches. See Ref 4.3.
Creditors Standing	630	0	0	0.00%	0.00%	Internal controls are robust enough to not warrant investigation of majority of NFI creditor matches. See Ref 4.3.
Housing Benefit Claimants	1,425	362	1425	100%	100%	Example resolution: removal or amendment of benefit. Total Outcomes: £34,870.92 of which £34,592.66 is being recovered. Number of Frauds: 8. See ref 4.5.



Report Group	Total Matches	Total Recommended Matches	Total Processed	% of Recommended Matches Processed	% of Total Matches Processed	Outcomes / Example Resolution
Insurance Claimants	5	2	5	100%	100.00%	No issues with any matches.
Payroll	207	45	158	100%	76.33%	Example resolution: confirm data is correct and confirm hours/contracts with other organisations. Amend data held if incorrect. All key reports and recommended matches are complete.
Payroll to Creditors	92	43	43	100%	46.74%	For payroll to creditors, all recommended matches were investigated by Internal Audit. See ref 4.4
Private Residential Care Homes	42	8	42	100%	100.00%	No issues identified - all instances were reported to the Council between the data set being sent and the matches being released.
<b>Total</b>	11463	4948	5481	85.11%	47.84%	(It should be noted that the % of total matches processed is low due to the fact that the Creditor History and Creditor Standing matches are not reviewed).

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

24 NOVEMBER 2016

#### REPORT OF THE CHIEF INTERNAL AUDITOR

##### UPDATED FORWARD WORK PROGRAMME 2016-17

#### 1. Purpose of Report.

- 1.1 To present to Members an update on the 2016/17 Forward Work Programme for the Audit Committee's information.

#### 2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1 Internal Audit's work impacts on all of the Corporate Improvement Objectives /other Corporate Priorities.

#### 3. Background.

- 3.1 The Core functions of an effective Audit Committee are:-

- To consider the effectiveness of the Council's Risk Management arrangements, the control environment and associated anti-fraud and corruption arrangements.
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the Council's assurance statements properly reflect the risk environment and any actions required to improve it.
- Oversee the work of internal audit (including the annual plan and strategy) and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the Chief Internal Auditor as Head of Audit.
- Consider the reports of external audit and inspection agencies, where applicable.
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Review and approve the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.

- 3.2 Effective Audit Committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. They enhance public trust and confidence in the financial governance of an Authority.

**4. Current situation / proposal.**

4.1 In order to assist the Audit Committee in ensuring that due consideration has been given by the Committee to all aspects of their core functions an updated forward work programme is attached at **Appendix A** covering 2016/17.

**5. Effect upon Policy Framework& Procedure Rules.**

5.1 None

**6. Equality Impact Assessment**

6.1 There are no equality implications arising from this report.

**7. Financial Implications.**

7.1 None

**8. Recommendation.**

8.1 That Members note the updated Forward Work Programme to ensure that all aspects of their core functions are being adequately reported.

**Helen Smith**  
**Chief Internal Auditor**  
**24<sup>th</sup> November 2016**

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**Background documents**

None

**AUDIT COMMITTEE  
SCHEDULE OF MEETINGS AND FORWARD WORK PROGRAMME  
2016 – 2017**

PROVISIONAL DATE OF MEETING	FORWARD WORK PROGRAMME	OFFICER RESPONSIBLE	UPDATE
<b>2016</b>			
30 <sup>th</sup> June	Information and Action Requests (if applicable).	Chief Internal Auditor (CIA)	Completed
	Updated Forward Work Programme.	CIA	Completed
	Pre-audited Statement of Accounts 2015/16.	Head of Finance	Completed
	Annual Governance Statement 2015-16	Corporate Director Operational Services and Partnerships	Completed
	Treasury Management Outturn 2015/16	Head of Finance	Completed
	Complete Audits (if applicable).	CIA	Completed
	Proposed Scope for the External Assessment of the IASS.	CIA	Completed
	External Auditors / Inspection Reports (where applicable).	Head of Finance/ WAO	
	IASS Outturn Report April and May 2016.	CIA	Completed
29 <sup>th</sup> September	Information and Action Requests	CIA	Completed
	Updated Forward Work Programme	CIA	Completed
	Statement of Audited Accounts and Final Annual Governance Statement 2015/16	Head of Finance / WAO	Completed
	Internal Audit 5 months Outturn Report April to August 2016.	CIA	Completed
	Completed Audits Report (where applicable)	CIA	Completed
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	N/A
	Corporate Risk Assessment Review 2016-17	Risk & Insurance Manager	Completed
24 <sup>th</sup> November	Up dated Forward Work Programme	CIA	Submitted
	Information and Action Requests (where applicable)	CIA	Submitted
	National Fraud Initiative Update	CIA	Submitted
	Treasury Management Half Year Report 2016-17	Head of Finance	
	Report on the work undertaken on School Audits	CIA	Submitted
	Fraud update	Head of Finance / Benefits Manager	Deferred to January
	Completed Audits Report (if applicable)	CIA	Submitted
	Internal Audit Outturn Report – April 2016 to October 2016.	CIA	Submitted
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	
<b>2017</b>			
26 <sup>th</sup> January	Up dated Forward Work Programme	CIA	
	Information and Action Requests (if applicable)	CIA	
	Internal Audit 9 months Outturn Report April 2016 – December 2016	CIA	
	Completed Audits (where applicable)	CIA	
	Report on the work undertaken on	CIA	Brought

**APPENDIX A**

	<b>School Audits.</b>		<b>Forward to November</b>
	<b>External Auditors / Inspection Reports (where applicable)</b>	<b>Head of Finance / WAO</b>	
	<b>Corporate Risk Assessment 2016-17</b>	<b>Head of Finance</b>	
	<b>Treasury management strategy 2017-18</b>	<b>Head of Finance</b>	
	<b>Fraud update</b>	<b>Head of Finance / Benefits Manager</b>	
<b>24<sup>th</sup> April</b>	<b>Information and Action Requests (where applicable)</b>	<b>CIA</b>	
	<b>Updated Forward Work Programme</b>	<b>CIA</b>	
	<b>Proposed Forward Work Programme 2017-18.</b>	<b>CIA</b>	
	<b>Internal Audit proposed Annual Strategy and Audit Plan 2017-2018.</b>	<b>CIA</b>	
	<b>Governance – Compliance with Public Sector Internal Audit Standards for 2016-17</b>	<b>CIA</b>	
	<b>Audit Committee – Terms of Reference</b>	<b>CIA</b>	
	<b>Internal Audit Shared Service Charter</b>	<b>CIA</b>	
	<b>Completed Audits (where applicable)</b>	<b>CIA</b>	
	<b>Head of Audit’s Annual Opinion Report and outturn for the Year 2016/17</b>	<b>CIA</b>	
	<b>External Auditors / Inspection Reports (if applicable): -</b>	<b>Head of Finance / WAO</b>	