

**AUDIT COMMITTEE - THURSDAY, 28 SEPTEMBER 2017**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3, CIVIC OFFICES, ANGEL STREET, BRIDGEND, CF31 4WB ON THURSDAY, 28 SEPTEMBER 2017 AT 2.00 PM**

Present

Councillor LM Walters – Chairperson

CA Green  
RM Granville  
MC Clarke

JE Lewis  
CA Webster

MJ Kearn  
A Williams

RMI Shaw  
AJ Williams

Apologies for Absence

JR McCarthy and B Sedgebeer

Officers:

|                  |  |
|------------------|--|
| Randal Hemingway | Head of Finance & Section 151 Officer    |
| Helen Smith      | Chief Internal Auditor                   |
| Mary Williams    | Chief Accountant                         |
| Julie Ellams     | Democratic Services Officer - Committees |
| Nigel Smith      | Finance Manager                          |
| Roger Martin     | Insurance and Risk Officer               |

16. DECLARATIONS OF INTEREST

None

17. APPROVAL OF MINUTES

RESOLVED            The minutes of the meeting held on 29<sup>th</sup> June 2017 were approved as a true and accurate record subject to an amendment to reflect that the Corporate Risk Register would be reported to the 28<sup>th</sup> September 2017 meeting.

18. BRIDGEND COUNTY BOROUGH COUNCIL CORPORATE ASSESSMENT FOLLOW-UP REPORT BY WALES AUDIT OFFICE

S Barry (Wales Audit Office) presented the Wales Audit Office's report to the Audit Committee for noting and for information. He explained that the Corporate Assessment provided a position statement on the Council's capacity and capability to deliver continuous improvement. It examined the track record of performance and outcomes as well as examining the key arrangements that were necessary to underpin improvements in services and functions.

The Wales Audit Office carried out a follow-up audit earlier this year. The audit examined whether the Council was making effective progress against the proposals for improvement issued in the Corporate Assessment report.

He reported that the Council was developing appropriate plans for the future and subject to aligning ICT and human resource functions with the transformation programme, was well placed to secure improvement.

The Auditor General concluded that "the Council has responded effectively to the issues we raised in the Corporate Assessment and has either fully implemented our proposals

for improvement or has made progress against them”. A summary of the findings was presented along with further information in relation to the Council’s progress against each proposal for improvement in Appendix 1 of the report.

A member queried the use of RAG ratings and suggested that ratings should be harmonised across different shared services rather than used in isolation. S Barry explained that RAG ratings would not be used for comparison and they were originally used together with supporting information as an internal tool. A solution would be to improve the quality of the narrative. It was for scrutiny to identify if the information they were given was providing the key messages and what was being delivered.

A member referred to sickness levels within the authority and suggested inviting the Chair of the relevant scrutiny committee to give an update to Audit Committee on plans to reduce sickness levels.

A member referred to the website and the 1 star rating it had been given. Members were advised that this had been acknowledged and work was underway to redesign the website.

**RESOLVED**

1) Audit Committee received the report and noted the content and the improvement that had been made.

2) Audit Committee agreed to request that the Chair of the relevant scrutiny committee give an update on plans to reduce sickness levels to a future meeting.

**19. FINAL STATEMENT OF ACCOUNTS 2016-17**

The Head of Finance presented a report on the final Statement of Accounts for 2016-17 which was now due to be certified by the external auditors, Wales Audit Office (WAO), the associated Letter of Representation of the Council and the final audited Annual Return for the Harbour Authority.

WAO updated Members on their main findings and summarised the audit work carried out in respect of the 2016-17 financial year and presented their Audit of Financial Statements Report, which required the Appointed Auditor to report these key findings to those charged with governance

The unaudited Statement of Accounts for 2016-17 was previously presented to Audit Committee on 29 June 2017 for noting and had been signed by the Responsible Financial Officer on 19 June 2017. During the intervening period, the external audit had taken place resulting in a number of amendments being made to the financial statements.

The Head of Finance explained that the audited Statement of Accounts 2016-17 was attached to the report and was required to be signed off as presenting a true and fair view of the financial position of the Council as at 31 March 2017 by 30 September 2017.

The Council Fund and earmarked reserves balances as at 31 March 2017 presented in the pre-audit Statement of Accounts were detailed in the report.

There had been no adjustments as a result of the external audit that had impacted on the year-end figures. However the WAO Audit of Financial Statements Report included a number of findings from the audit which should be brought to the attention of the committee.

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The Head of Finance explained that the Auditor General was not seeking absolute assurance that the financial statements were correctly stated but he was adopting the concept of materiality. The quantitative levels at which he judged a misstatement to be material was £4.5 million.

Wales Audit Office reported that at the time of the audit 20% of councillors had not submitted their related party return as required. Subsequently, all of the outstanding returns were rigorously pursued and by 19 September only one return remained outstanding.

A Final Letter of Representation was required by the Appointed Auditor to complete the process and enable the accounts to be signed off. This was included as Appendix B to the report.

Appendix D contained the Annual Return for the Porthcawl Harbour Authority. Appendix E contained the audit letter that confirmed that there had been no adjustments to the draft return presented to Audit committee in June 2017. As a result, there was therefore no requirement for Audit Committee to re-approve this Annual Return. The Return would be published on the Council's website.

Appendix F contained the Annual Return for County Borough Supplies which ceased operation on the 31 March 2016 but had some additional transactions within 2016-17 which needed auditing. Appendix G contained the audit letter on County Borough Supplies which now needed approval by this Committee.

There was a legal requirement for the Statement of Accounts to be signed by the responsible financial officer and approved by the relevant committee by 30 September following the end of the financial year.

The Head of Finance explained that during the audit potential issues relating to the processing of housing benefit claims had been identified. Initially a sample of 20 housing benefit cases were tested, of which eight cases were identified which contained an error. Because of the high error rate, the sample was extended by a further 25 additional cases and three of these contained an error. Errors ranged from 30 pence to £1,889 and the value of the 11 errors totalled £3,087. The level of extrapolated error was significant but did not exceed the materiality of £4.5 million. The Head of Finance confirmed that further testing work had commenced and that findings would be reported to the November meeting.

The Head of Finance also explained the incorrect calculation of an exit package payment as detailed in the report.

Members raised a number of issues identified in the report. A member referred to the processing of housing benefit claims and asked what sample size WAO deemed appropriate for internal purposes. WAO explained that it depended on what was being tested and the purpose of the review. The auditor had to maintain its independence and is not therefore in a position specify precise sample sizes to the Council. The Head of Finance also explained a meeting had taken place with Internal Audit and a report was due in the autumn.

Members asked what the financial impact would be of writing off the overpayments. The Head of Finance explained that if the claimant could be expected to know then the overpayment would be recovered but if they could not be expected to know then it would be written off. He further explained that there were two overpayments the council would not be recovering, of values £24 and £16 respectively.

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Members asked if the overpayment total was likely to increase following the additional checks. He explained that it was unknown as to whether this was symptomatic of a larger problem and that last year no errors were identified. Further work would entail looking at 40 cases for the three error types which totalled 120 cases. A member asked what percentage the 45 cases represented and was advised that it was a small proportion and the total number of claims was 16,000.

Members raised concerns about the impact of the errors and the risk of claimants losing their homes. The Head of Finance explained that he did not believe this was not the case and that those with significant errors had been contacted by phone. Members raised concerns that following the testing of the additional sample, other claimants could be identified at risk of losing their homes. The Head of Finance commented that if the sample indicated that there could be a high error rate then further work would be undertaken. A large number of claimants were in receipt of full rent so they would not have been overpaid. He confirmed that there was no discernible trend when it came to the errors and different staff were involved, and the errors covered different types of claim. It was recognised that Managers were trying to implement changes with an ever decreasing budget and there is always a need to achieve a quick response time, but without compromising accuracy.

The Head of Finance explained that there would be two further reviews by WAO and Internal Audit in the following months and these would help to identify if any additional management controls needed to be added. If the recent media articles resulted in more phone calls then the service had flexibility to increase temporary capacity to deal with additional enquiries.

A member commented that it was a question of balance and that the overall audit report was favourable.

A Member asked for clarification regarding who owned the intellectual rights to the WCCIS system and was advised that the authority owned the software and hardware.

RESOLVED That Audit Committee:-

- Approved the audited Statement of Accounts 2016-17 (Appendix A)
- Noted and agreed the Final Letter of Representation to the Wales Audit Office (Appendix B)
- Noted the Appointed Auditors' Audit of Financial Statements Report (Appendix C)
- Noted the Annual Return for Porthcawl Harbour (Appendix D) and noted the Wales Audit Office's Letter on the Return (Appendix E)
- Approved the Annual Return for Catalogue Supplies (Appendix F) and noted the Wales Audit Office's Letter on the Return (Appendix G).

### 20. THE CORPORATE RISK ASSESSMENT 2017-18

The Risk Management and Insurance Officer presented a report informing the Audit Committee of amendments to the 2017-18 Corporate Risk Assessment which had risen out of the review undertaken in July 2017 and other changes to risks that had been made subsequently.

The Audit Committee's Terms of Reference required the Committee to review, scrutinise and issue reports and recommendations on the appropriateness of the Authority's risk management, internal control and corporate governance arrangements.

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The 2017-18 Corporate Risk Assessment was approved by Council on 1 March 2017 and was fully aligned with the Council's Medium Term Financial Strategy and Corporate Plan. In accordance with the Council's Corporate Risk Management Policy, it was a requirement that the Corporate Risk Assessment was considered and reviewed by Senior Management Team (SMT), Cabinet and Audit Committee, and was one of the components reviewed as part of the Council's quarterly Corporate Performance Assessment framework.

The Corporate Risk Assessment had been reviewed by SMT and the updated document was attached to the report. It identified the main risks facing the Council, the likely impact of these on the Council's services and the wider County Borough, what was being done to manage the risks and allocated responsibility for the Council's response. Since it was reviewed by SMT the Medium Term Financial Strategy, Waste, Educational Attainment, Local Government Reorganisation and Collaboration risks had been updated to reflect important changes. In addition the risk assessment also incorporated a new risk in relation to an unfunded NJC pay claim for 2018-2019. Appendix 2 demonstrated, via footnotes, the links with the Corporate Plan.

The Risk Management and Insurance Officer provided background to the first two risks, "Making the cultural change necessary to deliver the Medium Term Financial Strategy" and "Supporting vulnerable children, young people and their families".

The Audit Committee discussed the way the individual risks were presented and suggested that the Committee select a risk of particular interest and that the "risk owner" be asked to present the risk to a future meeting. Members discussed the risks and asked for a presentation from the Communities Directorate.

Members also discussed the level of reserves required to make the Council resilient, aspirational targets, arrangements for disabled children moving into adult social care, consultation on acceptable areas for budget reductions, safe staffing levels and recognised the huge amount of work required to secure a Community Asset Transfer.

Members highlighted Homelessness, Maintaining the Infrastructure and Health and Safety as areas of interest where the risk owner could be invited to future meetings to provide further information.

- RESOLVED
- 1) Members considered the changes to the Corporate Risk Assessment that had been made and agreed to receive a further report in January 2018 concerning the 2018-19 Corporate Risk Assessment and review of Risk Management Policy.
  - 2) Members requested that a risk owner from the Communities Directorate be invited to a future meeting to present details of the risk to Audit Committee.

### 21. INTERNAL AUDIT - OUTTURN REPORT - APRIL TO AUGUST 2017

The Chief Internal Auditor presented a report informing the Audit Committee of actual Audit performance against the five months of the audit plan covering April to August 2017.

The 2017/18 Internal Audit Plan was submitted to the Audit Committee for consideration and approval on the 27<sup>th</sup> April 2017. The plan outlined the assignments to be carried out and their respective priorities and provided for a total of 1,085 productive days to cover the period April 2017 to March 2018.

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At present the overall structure of the Section was based on 18 Full Time Equivalent Employees (FTE's). However, at the end of the Financial Year 2016/17, the Section was carrying 7.5 FTE vacant posts, which had subsequently increased to 9.5 FTE vacant posts.

At the end of the period, 13 reviews / jobs had been completed and closed, 11 of which had 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 weakness 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.

The Chief Internal Auditor explained that there was a shortfall of 189 productive days on the minimum expected as a direct result of staff vacancies and long term sickness absence. The level of vacancies and the ability to recruit was of serious concern however a re-structure of the service was underway and contingency plans were proceeding to address the shortfall.

RESOLVED That the Committee gave due consideration to the Internal Audit Outturn Report covering the period April to August 2017 to ensure that all aspects of their core functions were being adequately reported.

22. UPDATED FORWARD WORK PROGRAMME 2017-18

The Chief Internal Auditor presented the updated Forward Work Programme for 2017/18 for the Audit Committee to consider and approve.

During the discussion on the BCBC Corporate Assessment follow-up report, members requested that the Chair of the relevant scrutiny committee give an update on plans to reduce sickness levels to a future meeting. During this item Members were also advised that there would be a further report on the processing of housing benefit claims.

Following the presentation of the Corporate Risk Assessment 2017-18 report, Members requested that a presentation be made to a future meeting on the Corporate Risk Assessment in relation to the Communities Directorate.

The Chief Internal Auditor advised that she would update the Forward Work Programme for the next meeting of the committee.

RESOLVED That the Forward Work Programme be approved subject to the amendments agreed at the meeting.

23. URGENT ITEMS

None

The meeting closed at 3.40 pm