

**AUDIT COMMITTEE - THURSDAY, 16 NOVEMBER 2017**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3 - CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 16 NOVEMBER 2017 AT 2.00 PM**

Present

Councillor LM Walters – Chairperson

CA Green	JE Lewis	JR McCarthy	MJ Kearns
B Sedgebeer	RMI Shaw	A Williams	AJ Williams
MC Clarke	A Hussain		

Mrs J Williams – Lay Member

Apologies for Absence

RM Granville

Officers:

Randal Hemingway	Head of Finance & Section 151 Officer
Mark Jones	Financial Audit Manager, Wales Audit Office
Helen Smith	Chief Internal Auditor
Andrew Rees	Senior Democratic Services Officer - Committees
Satwant Pryce	Head of Regeneration and Planning
Zak Shell	Head of Neighbourhood Services
John Llewellyn	Financial Audit Team Leader, Wales Audit Office

24. DECLARATIONS OF INTEREST

Councillor M Clarke declared a personal interest in agenda item 6 – Corporate Risk Assessment 2017-18 – Communities Directorate Risks as a Director of Bridgend Tourism Association and a Trustee / Director of Porthcawl Harbourside.

25. APPROVAL OF MINUTES

RESOLVED: That the minutes of the meeting of the Audit Committee of 28 September 2017 were approved as a true and accurate record subject to the inclusion of Mrs J Williams in the list of apologies for absence.

26. HALF YEAR TREASURY MANAGEMENT REPORT 2017-18

The Head of Finance and Section 151 Officer reported on an update on the mid-year review and half year outturn position for Treasury Management activities, Treasury Management and Prudential Indicators for 2017-18 and also highlighted compliance with the Council's policies and practices.

He reported that in order to ensure the effective scrutiny of treasury management in accordance with the Treasury Management Strategy, this Committee had been nominated to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. He informed the Committee that the Council has complied with its legislative and regulatory requirements during the first half of 2017-18. He informed the Committee that the Treasury Management Strategy 2017-18 and Half Year Outturn were reported to Council on 1 March 2017 and 1 November 2017 and in addition, the quarterly monitoring report was presented to Cabinet in July 2017.

The Head of Finance and Section 151 Officer reported on a summary of the Treasury Management Activities for the first half of 2017-18 and informed the Committee that the Council had not taken long term borrowing since March 2012 and it was not expected there would be a requirement for any long term borrowing in 2017-18. He stated that £2m short term borrowing was taken on 24 May 2017 for cash-flow purposes, which had been repaid on 5 June 2017. He informed the Committee that favourable cash flows had provided surplus funds for investment, with the balance on investments at 30 September 2017 of £44m, with an average rate of interest of 0.48%.

The Head of Finance and Section 151 Officer also reported that the Council is diversifying into more secure and / or higher yielding asset classes during 2017-18 and in order to be able to use the majority of these different types of instruments, the Council is required to use a nominee account(s) with a third party for safe custody of such instruments in a custody account. Following approval by Cabinet on 5 September 2015, the Council opened a custody account with King & Shaxson. The Council also opened an account with the CCLA Public Sector Deposit Fund in August 2017 which is a pooling of public sector deposits wholly aligned with the principles and values of the public sector.

The Head of Finance and Section 151 Officer reported that the 2011 Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management and Prudential Indicators. He stated that the indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital programme.

The Committee referred to the recent announcement by the Bank of England of an increase in the Bank Rate which was at variance with the forecast made by Arlingclose, the Council's Treasury Management advisors who predicted that the Bank rate would remain at 0.25%. The Head of Finance and Section 151 Officer stated that Arlingclose had predicted that an increase in the Bank Rate was unlikely at the time the report was written but this had not proved to be the case.

**RESOLVED:** That the Committee noted the Annual Treasury Management Activities for 2017-18 for the period 1 April 2017 to 30 September 2017 and the projected Treasury Management and Prudential Indicators for 2017-18 which were all reported to Council for approval on 1 November 2017.

27. **HOUSING BENEFIT - SAMPLE TESTING**

The Head of Finance and Section 151 Officer reported on the outcome of further error testing work undertaken on Housing benefit claims following the work carried out by the Wales Audit Office, wherein it had tested a sample of 45 Housing Benefit cases. The sample contained 11 cases with errors, and the findings extrapolated, according to normal auditing practice to calculate a hypothetical error of circa £1.9m. He stated that as explained to the previous meeting of the Committee, the extrapolation is purely for the purposes of establishing whether a particular matter could materially affect the Council's accounts. He informed the Committee that the WAO had determined the matter was significant, but not material in respect of the Council's 2016-17 financial statements.

The Head of Finance and Section 151 Officer reported that further work had been carried out by officers to establish whether there is a larger underlying issue. He stated that for each of the three types resulting in financial adjustments, a further 40 cases had been checked, totalling 120 cases. He presented a summary of the results of further

testing, where 3 errors had been found, of which 2 required financial adjustments. One case resulted in an underpayment of £7.51 where a works / occupational pension had been incorrectly calculated. The other case resulted in a one-off overpayment of £29.06 where earnings had wrongly been applied. He informed the Committee that the WAO are required to perform further testing on the sample of 120 cases, which would involve checking a 10% sample of each of the case types, in addition to the three errors identified.

The Head of Finance and Section 151 Officer reported that further testing had been carried out by the WAO on expenditure for non-Housing Revenue Account rent rebates. He stated that this audit work was necessary as part of the routine testing by the WAO of the Council's annual housing benefit claim. He informed the Committee that a number of errors had initially been identified, every single bed and breakfast assessment totalling 68 cases, had been checked. He stated that an identical error was detected in all cases and that ineligible fuel costs had been overstated by £1.93 per week, leading to an underpayment. He informed the Committee that each case had been corrected and underpayments ranged from £0.28 to £25.09, with one overpayment of £61.20. He also informed the Committee that the total error across the caseload was £347.28 out of total expenditure of circa £37,000. He stated that all the cases had been corrected and the payments made good. He informed the Committee that this error was attributable to a historic differential between bed & breakfast rates and statutory deductions which has changed over time and would now be addressed as part of the annual check, preventing this in future. He also informed the Committee that one further error was identified by the WAO in this sample which affected the subsidy claim to DWP by £0.72. The Head of Finance and Section 151 advised the Committee that it was important to note that this element of Housing Benefit is paid to the housing department of the Council, and therefore, the values reflected above had not impacted either upon individuals in temporary accommodation and the total impact on the council's subsidy claim from the Department of Work & Pensions is £61.20.

The Head of Finance and Section 151 Officer also reported that further testing had been carried out on 20 cases not linked to bed & breakfast cases, with one error found which related to the calculation of a monthly average for occupational pension income; this resulted in an underpayment of £0.10. He stated that the WAO had asked for further testing for cases of this type with occupational pension income and that most cases within this category were recipients in receipt of "pass-ported" benefits. He informed the Committee that the Benefits Team Manager carried out a 100% check on all the cases in Cell 11 and found no further errors in any other cases of pension age or any in receipt of an occupational pension income. This would also be subject to WAO review. The WAO had also commenced the required testing on "Modified schemes" (typically war pensions) and that this work is ongoing.

The Head of Finance and Section 151 Officer informed the Committee that values of the errors found were significantly smaller than which were previously reported to the Committee and not to the scale reported in the media.

The Financial Audit Manager, Wales Audit Office confirmed that the work on testing cases is in progress and that the outcome of the testing will be reported to a future meeting of the Committee as part of the Certification of Grants and Returns report. He also confirmed that 120 cases had been tested and that a sample of 10% of cases had been selected, whereby 3 errors had been identified, 2 of those cases required financial adjustments to be made. He stated that further testing on the sample of 120 cases was conducted, which involved the checking of 12 cases. Of the 12 cases, 7 cases were error free, 5 cases had ongoing queries which would be resolved by next week. He also informed the Committee that three further non-HRA cases required testing. He stated that the Wales Audit Office also audit non-grant claims and that in the last year a

number of those claims had qualifications. Thus far, no qualifications had been reported this year. He stated there had been a noticeable improvement on non-Housing Benefit cases.

The Committee questioned when the further work by officers to establish whether there was a larger underlying issue would be completed. The Head of Finance and Section 151 Officer informed the Committee that the WAO is applying an audit technique and he was confident there were no errors to the magnitude reported in the media. He stated that officers had carried out further testing of cases for errors and more assurance could now be given as to their accuracy. He also informed the Committee that the WAO need to review the work of officers on the cases found. He stated that there were no fundamental control weaknesses and there was a need to strike a balance between the speed of processing housing benefit claims and accuracy, but stressed that no two cases were identical. He also stated that there was a need to reinforce that whilst speed was important in processing claims it should not be to the detriment of accuracy. He informed the Committee that the errors found were attributable to human error. He also informed the Committee that management checks had been stepped up and that the aim is to strive towards zero errors.

**RESOLVED:** That the report be noted.

28. **CORPORATE RISK ASSESSMENT 2017-18 - COMMUNITIES DIRECTORATE RISKS**

The Committee received a presentation by the Head of Neighbourhood Services on the long and short term expectations of the maintenance of the highway network. He outlined to the Committee the size of the challenge, whereby the authority had a total carriageway asset length of 780km, with a total carriageway asset value of £888m. He stated that total spend per annum on carriageway resurfacing is £500k, which equates to less than 0.1% of value, which compared to the spend by neighbouring authorities of £2.5m by RCT, £886 by Neath Port Talbot and £800k by the Vale of Glamorgan.

The Head of Neighbourhood Services informed the Committee that the highway authority is under a duty to maintain a highway that is maintainable at public expense and also has a duty to protect the rights of the public to use the highway. He highlighted the intervention criteria whereby the authority carries out inspections and undertakes repairs when defects are in excess of the Safety Defect Criteria. The criteria are based on best practice and generally levels accepted by the courts as reasonable and are also comparable to all other Local Authorities within Wales, and generally the UK. Skidding resistance and factors such as drainage / ditches to prevent the build-up of water on the carriageway, measures to address dips to avoid standing water, the monitoring of utility works and the maintenance of structures are also taken into account.

The Head of Neighbourhood Services informed the Committee of the cost of pothole filling which is £100/m<sup>2</sup> and resurfacing being £20/m<sup>2</sup>. He stated that at the end of 25 years of patching the road would require a full reconstruction (if not before) and that 25 years after resurfacing, the highway would be in general good condition with minor repairs required. He stated that typical claims can range from £200 for tyre repairs, up to £30,000 for Personal injury. He stated that it was more aligned to pothole issues, whilst the skidding resistance is also a critical aspect of carriageway maintenance. He informed the Committee that incidents as a consequence of failure in this regard could lead to life changing injuries and/or death and that Corporate Manslaughter would be a consideration.

The Head of Neighbourhood Services outlined a graph which showed a road condition analysis whereby due to increased pressure on the revenue budget, the amount of roads in good condition will reduce and it was estimated that the revenue budget would

need to increase by £1m. He also outlined a graph identifies that over 60% of the network will have issues. With an annual investment of £2m, 30% of the network will have issues and after 20 years, the additional capital spend on the network would have been £40million. He stated that as well as the increased pressure on the revenue budget, at year 20 it would cost an estimated £48 million to return the network to the condition as it is today. He informed the Committee that some roads in the network have reached the end of their serviceable life with the only option being resurfacing.

The Head of Neighbourhood Services informed the Committee that the Local Government Borrowing Initiative funded by the Welsh Government saw an investment of over £2m per annum for 3 years, which produced a reduction in claims by over 50% by end of return period. He stated that constant patching and pothole filling of the network was not sustainable and that these repairs will require further attention within a number of years. The cost of third party claims will rise, and a lack of resources is not a defence and that a failing network will detract from investors to the area. He stated that there is a public perception that the Council does not spend enough on repairing roads and which will get worse. He informed the Committee that prevention/early intervention avoids increased costs in the future, and ultimately a point will be reached where the patching cannot go on. He stated that national documents suggest increases in preventative maintenance will ensure the network is protected and that difficult decisions on the closing of roads will also have to be made.

The Committee expressed its concern that the risks as a result of budget reductions in the Communities Directorate had not been described adequately and needed strengthening. The Committee referred to the potential for a corporate manslaughter claim and asked whether it could be captured as a risk. The Head of Neighbourhood Services stated that corporate manslaughter could be inserted as a future risk in the risk register. He informed the Committee that the Department has a rigorous inspection scheme and as long as the frequency of inspection is maintained and maintenance is carried out to remedy defects, the Department will have done everything that it reasonably could to minimise that risk. He informed the Committee that the risk of corporate manslaughter is considered low, although as the Council moves forward with diminishing resources, the potential for future risk would increase. He stated that the Council defends 70% of claims received.

The Committee considered it helpful to have Directorate Risk Registers but commented that the risks identified were insufficiently complete and needed to better reflect the risk measures and also to capture timeframes. The Head of Neighbourhood Services informed the Committee that highway use is modelled and stated that greater detail of the risks would be included in the next risk register. He stated that the Council under invests in its highway network compared to neighbouring authorities and there was a need for £2.5 to be invested annually on resurfacing. The Head of Finance and Section 151 Officer concurred with the Head of Neighbourhood Services comment that greater investment is made by other local authorities and that the previous sources of external funding for the highway network was no longer available.

The Committee commented that the standard of repair is good but there was a need to articulate in the risk register that there were risks to the highway network with resources diminishing year on year as it does get noticed by the public when cuts to maintenance are made. The Committee asked whether any other sources of funding could be accessed. The Head of Neighbourhood Services stated that there were no external sources of funding available at present. He informed the Committee that a 5 year investment plan of £10m in the capital programme had been put forward to invest in the highway network.

The Committee commented that the wording of the risks could be summarised more succinctly to emphasise the impact and to avoid its meaning being hidden.

A member of the Committee commented that the Risk Register did not include unadopted roads, especially as one such road in Pencoed provides a vital access to the town and important for employment purposes. The Head of Neighbourhood Services informed the Committee of the requirement placed on developers to put in roads to an adoptable standard. He stated that there were instances where the developer has gone under and bonds had been put in place which would enable the Council to bring the road up to adoption. He informed the Committee that there were limited resources available to adopt roads. He undertook to raise the issue of the unadopted road into Pencoed with the Highways Network Manager.

In response to a question from the Committee on the cost of claims, the Head of Neighbourhood Services stated that he would provide the Committee with information on the average annual claims, but the Council does repudiate 70% of claims received.

The Committee questioned the impact of where the authority breached its statutory duty to carry out a repair to the highway network. The Head of Neighbourhood Services stated that the authority would open itself up to a claim if it breached its statutory duty, what was of concern is the deterioration to the highway network.

The Committee questioned the impact of flooding which would lead to increased costs. The Head of Neighbourhood Services stated that colder weather would affect the budget more due to the need for gritting, however milder weather would normally give rise to flooding, associated with this time of the year.

The Committee requested detail of future plans. The Head of Neighbourhood Services informed the Committee that the authority was looking at collaborative working opportunities on the highway network. He stated that the authority had reduced winter maintenance by reducing the number of gritters in operation which cover the County Borough. He also stated that there was a need to increase spend per km in the infrastructure

The Head of Regeneration, Development and Property Services informed the Committee of the risks which emanate as a result of the financial climate and that the economy in South Wales and the County Borough is heavily reliant on the public sector. She stated that the UK exiting the European Union causes uncertainty as it is a very big investor in infrastructure projects. She informed the Committee that whilst it was difficult to reduce risk, there was a need to reduce the impact of risks. She also informed the Committee that her Department supports small businesses through the Business Forum; it helps people into work and supports tourism and rural development projects.

The Head of Regeneration, Development and Property Services informed the Committee that her Department invests heavily in urban renewal by bringing sites forward for redevelopment, such as the water sports centre at Rest Bay and the redevelopment of Maesteg Market. She stated that investment in development is heavily dependent on the local authority and that every £1 spent will derive £500k in investment and every £1 cut will see £10 being lost. She also informed the Committee that local authorities will assist economies which are less buoyant with public investment.

The Head of Regeneration, Development and Property Services informed the Committee that the construction industry local is very buoyant; however the authority has difficulty in recruiting certain professional staff such as engineers and surveyors due

to the constraints of job evaluation. She stated that difficulty in recruiting staff posed the greatest risk to the delivery of projects.

The Committee asked why there was no regeneration strategy for Pencoed and it was not referenced in the Risk Register as the other towns in the County Borough had been, particularly as the electrification of the railway had been abolished and the dualling of the Penprysg bridge had been cancelled. Also, there had been a moratorium on development in Pencoed included in the Local Development Plan. The Head of Regeneration, Development and Property Services informed the Committee that this was attributed to a lack of a retail centre on the scale of the other towns in the County Borough.

The Committee referred to the potential for a significant capital receipt to be derived from the Seven Bays project in Porthcawl and questioned whether officers were satisfied at the level of risk. The Head of Regeneration, Development and Property Services stated that she would amplify the level of risk for the Seven Bays Project.

The Committee considered there was a need to change risks so that they were less focused on town centres and more focused on retail centres. The Head of Regeneration, Development and Property Services commented that town centres such as Porthcawl and Maesteg have reasonable facilities and a critical mass.

The Committee questioned the progress of Community Asset Transfers and the delivery of corporate priorities had been hampered by a lack of resource and does it pose a significant risk. The Head of Regeneration, Development and Property Services commented that it does pose a significant risk as the authority has 3 surveyors engaged in managing the estate. The Head of Neighbourhood Services informed the Committee that the authority also had difficulty in recruiting structural engineers and also had an ageing workforce.

The Committee thanked the Head of Regeneration, Development and Property Services and Head of Neighbourhood Services for their comments and explanation of their risks.

**RESOLVED:** That the Committee considered the risks contained within the Corporate Risk Register and that it would review it further at the meeting of the Committee in January and requested that the risks be more succinct and that risk reduction measures are looked at to better understand risk scores in order to manage risks more effectively.

29. **UPDATED EXTERNAL ASSESSMENT OF INTERNAL AUDIT SHARED SERVICE**

The Head of Internal Audit reported on an update on the implementation of actions as a result of the outcome of the External Assessment of the Internal Audit Shared Service in January 2017.

The Head of Internal Audit informed the Committee that the review had commenced on 30 January 2017 and the on site assessment concluded on 3 February 2017. She stated that the report on the External Assessment together with the Action Plan was reported to this Committee on 29 June 2017, wherein it was agreed that regular progress reports against the implementation of the recommendations and suggestions for improvement would be presented to this Committee.

The Head of Internal Audit reported on the progress made against the 18 recommendations and 10 suggestions for improvement identified by the assessor. She stated that 14 recommendations actions had been completed and another 4

recommendations were ongoing. Of the 10 suggestions for improvement, 5 had been completed and 4 were ongoing. The Head of Internal Audit informed the Committee that she had disagreed with one of the suggestions for improvement as it was considered that there were sufficiently formal systems already in place. She stated that she would raise this suggestion which related to formalising the current informal arrangements regarding raising matters for inclusion in the risk register with the Corporate Management Board and would inform the Committee of the outcome.

**RESOLVED:** That the Committee considered the Action Plan and noted the progress that has been made so far to-date.

30. **UPDATE ON STAFF VACANCIES WITHIN THE INTERNAL AUDIT SHARED SERVICE**

The Chief Internal Auditor reported on an update on the current staff vacancies within the Internal Audit Service. She stated that the Committee had previously raised concerns as to the level of vacancies carried by the service and had requested an update on the current staffing vacancies.

She reported the number of vacancies had steadily increased year on year culminating in the present position of 9.5 FTE vacancies based on the old structure, it had therefore been necessary to undertake a re-structure, which became effective on 1 October 2017, reducing the number of posts from 18 to 14. This had now reduced the number of vacancies to 6.5 FTEs. The Chief Internal Auditor detailed the grade and salary range of each of the vacancies. She stated that it was unclear at this stage whether the changes made to the structure will have a positive impact on the Section's ability to attract the right staff to the vacant posts and would only be determined when the market was tested. She informed the Committee that the Section would not lose sight of any future opportunities that might be available to extend the service with other Welsh authorities.

The Chief Internal Auditor reported that as a consequence of the vacant posts, the ability to deliver the planned audit days had been affected. In order to address the shortfall in the delivery of the productive days, the South West Audit Partnership had been commissioned to undertake reviews on behalf of the Shared Audit Service. The cost of delivering these reviews would be met from the existing budget. The Chief Internal Auditor informed the Committee that market testing had yet to commence but the structure was now aligned to other local authority structures.

**RESOLVED:** That the content of the report be noted.

31. **INTERNAL AUDIT - OUTTURN REPORT - APRIL TO OCTOBER 2017**

The Chief Internal Auditor reported on the actual Internal Audit performance against the period of the audit plan year covering April to October 2017. She informed the Committee that the Plan provided for a total of 1,085 productive days to cover the period April 2017 to March 2018, with 313 actual days achieved to date, which was significantly less than that expected.

The Chief Internal Auditor reported that the overall structure of Internal Audit is based on 18 Full Time Equivalent (FTE) employees; however at the end of the 2016-17 financial year, the section carried 7.5 FTE vacant posts, which subsequently increased to 9.5 FTE vacant posts. She informed the Committee that the re-structure was now complete and as a consequence the number of posts had reduced from 18 to 14 FTEs, which had reduced the number of vacancies from 9.5 to 6.5.

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The Chief Internal Auditor also reported that at the end of the period, 14 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. She stated that of the remaining 3 reviews, 2 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 Committee whether further re-prioritisation of the audit plan was required due to the number of vacancies in the structure and that the impact of commissioning South West Audit Plan (SWAP) to undertake a number of audit reviews work had yet to be felt. The Chief Internal Auditor informed the Committee that the Audit Plan will be reviewed in order to establish whether the audit work planned could be achieved and to review the contingencies. She stated that it was unlikely that all staff would be recruited to start by the end of this financial year. She informed the Committee that a report on a revised Audit Plan will be presented to the Committee in January 2018 where the Committee will be informed of what is achievable and not achievable.

RESOLVED: That the Committee considered the Internal Audit Outturn Report covering the period April to October 2017 to ensure that all aspects of their core functions are being adequately reported.

### 32. UPDATED FORWARD WORK PROGRAMME 2017-18

The Chief Internal Auditor presented an update on the 2016/17 Forward Work Programme. She stated that in order to assist the Committee in ensuring that due consideration had been given by the Committee to all aspects of their core functions an updated Forward Work Programme was submitted.

The Chief Internal Auditor informed the Committee of amendments required to be made to the Forward Work Programme in that the Treasury Management Half Year Report 2017-18 and Treasury Management Strategy 2018-19 scheduled to be considered at the meeting on 18 January 2018 had been considered at today's meeting. The item on the Audit Strategy would now be reported to the meeting of the Audit Committee on 18 January 2018.

RESOLVED: That the Committee noted the updated Forward Work Programme to ensure that all aspects of their core functions are being adequately reported.

### 33. URGENT ITEMS

There were no urgent items.

### 34. MR RANDAL HEMINGWAY

The Chairperson announced that this would be the last meeting of the Committee to be attended by Mr Randal Hemingway, Head of Finance and Section 151 Officer prior to him leaving the authority to take up a new position. She thanked Mr Hemingway on behalf of the Members for his advice and service to the Committee and wished him every success in his new position.

The meeting closed at 4.07 pm