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Bridgend County Borough Council



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

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let us know if your language choice is Welsh.*



Gwasanaethau Gweithredol a Phartneriaethol / Operational and Partnership Services

Deialu uniongyrchol / Direct line /: (01656)
643148/643147

Gofynnwch am / Ask for: Andrew Rees

Ein cyf / Our ref:

Eich cyf / Your ref:

Dyddiad/Date: Friday, 10 November 2017

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, 16 November 2017 at 2.00 pm.**

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 - 8
To receive for approval the Minutes of the Audit Committee of 28 September 2017
4. Half Year Treasury Management Report 2017-18 9 - 26
5. Housing Benefit - Sample Testing 27 - 30
6. Corporate Risk Assessment 2017-18 - Communities Directorate Risks 31 - 38
7. Updated External Assessment of Internal Audit Shared Service 39 - 46
8. Update on Staff Vacancies within the Internal Audit Shared Service 47 - 50
9. Internal Audit - Outturn Report - April to October 2017 51 - 74
10. Updated Forward Work Programme 2017-18 75 - 78
11. Urgent Items
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

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meeting as a matter of urgency.

Yours faithfully

P A Jolley

Corporate Director Operational and Partnership Services

Councillors:

CA Green
JE Lewis
JR McCarthy
MJ Kearns

Councillors

B Sedgebeer
RMI Shaw
RM Granville
LM Walters

Councillors

A Williams
AJ Williams
MC Clarke
A Hussain

Lay Member

Mrs J Williams

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 29th 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 28th 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.

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.

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.

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 27th 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.

AUDIT COMMITTEE - THURSDAY, 28 SEPTEMBER 2017

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

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

16 NOVEMBER 2017

REPORT OF THE HEAD OF FINANCE & SECTION 151 OFFICER

HALF YEAR TREASURY MANAGEMENT REPORT 2017-18

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 2017-18 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. Audit Committee received training in June 2017 to assist them in their function of scrutinising treasury management, with particular emphasis on investment options available to the Council. During the 2017-18 financial year to date, in addition to the regular treasury management reports to Cabinet and Council, Audit Committee received the Annual Treasury Management Outturn Report 2016-17 in June 2017.
- 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 Chartered Institute of Public Finance and Accountancy's (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 2017-18 on 1 March 2017.
- 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 2017-18. The Treasury Management Strategy 2017-18 and the Half Year Outturn were reported to Council on 1 March 2017 and 1 November 2017 respectively. In addition, a quarterly monitoring report was presented to Cabinet in July 2017.
- 4.2 A summary of the Treasury Management Activities for the first half of 2017-18 is shown in **Appendix A**. The Council has not taken long term borrowing since March 2012 and it is not expected that there will be a requirement for any new long term borrowing in 2017-18, however for cash-flow purposes £2 million short term borrowing was taken 24 May 2017 and repaid 5 June 2017 as detailed in section 3 in **Appendix A**. Favourable cash flows have provided surplus funds for investment and the balance on investments at 30 September 2017 was £44 million with an average rate of interest of 0.48%. 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 2017-18.
- 4.3 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 investments (a custody account) and on 5 September 2017, Cabinet approved the opening of a King & Shaxson custody account. 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. It is UK domiciled and regulated by the Financial Services Authority. There is also an advisory board representing the public sector depositors which ensures strong governance arrangements of the Fund and is an approved financial instrument in our Treasury Management Strategy 2017-18 and provides instant access to the funds. Investment in the fund complies with the conditions that current regulations set out as any investment is for the prudent management of the Council's financial affairs and complies with the Council's constitutional requirements and with the approval delegations in place. It is also a safer investment as the chance of bail in if a bank was in difficulty is reduced. There was no balance outstanding at 30 September 2017. Section 4 in **Appendix A** details these developments.

4.4 The Council defines high credit quality as organisations and securities having a credit rating of A- or higher and **Appendix B** shows the equivalence table for credit ratings for Fitch, Moody's and Standard & Poor's and explains the different investment grades.

4.5 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 2017-18 set out in the Council's Treasury Management Strategy and also the projected indicators for 2017-18 are shown in section 6 in **Appendix A**.

5. Effect upon Policy Framework & Procedure rules

5.1 As required by Financial Procedure Rule 17.3 within the Council's Constitution, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Strategy 2017-18 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 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.

Randal Hemingway
Head of Finance and Section 151 Officer
1 November 2017

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Loans & Investment Officer

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Background documents:

Treasury Management Strategy 2017-18

**SUMMARY OF TREASURY MANAGEMENT ACTIVITIES
01 APRIL TO 30 SEPTEMBER 2017**

1. The treasury position for 1 April to 30 September 2017:

		Principal as at 01-04-17 £m	Average Rate %	Principal as at 30-09-17 £m	Average Rate %
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
Total Long Term External Borrowing***		96.87	4.69	96.87	4.69
Other Long Term Liabilities*** (including PFI)		21.77		21.45	
TOTAL GROSS DEBT		118.64		118.32	
Fixed rate investments		28.50	0.56	41.00	0.48
Variable rate investments		5.25	0.45	3.00	0.52
TOTAL INVESTMENTS****		33.75	0.55	44.00	0.48
TOTAL NET DEBT		84.89		74.32	

* Public Works Loan Board (PWLB)

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

*** Long term borrowing/liabilities include all instruments with an initial term of 365 days or more and 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. A breakdown of the movement during this period is shown in Section 4.4.

Fixed rate in the above table includes instruments which are due to mature in the year and also a £3m structured deal where the change in interest rate has been agreed and fixed in advance

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 dates and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The trigger dates are July and January however the Council understands that the lender is unlikely to exercise their option in January 2018. 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 £21.45 million at 30 September 2017 includes £17.94 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg– 16.5 years remaining term) and £2.40 million relating to a loan from the WG Central Capital Retained Fund for regeneration works within the Llynfi Valley which has not yet commenced.

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.

The Council's Treasury Management advisors are Arlingclose. The current 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
- Training courses (training was provided to Members 26 June 2017)

2. External Context

The interest rate views incorporated in the Council's Treasury Management Strategy for 2017-18, were based upon officers' views supported by a selection of City forecasts provided by Arlingclose. When the Treasury Management Strategy for 2017-18 was prepared in January 2017 it was forecast that the Bank Rate would remain at 0.25% during 2017-18 with a low possibility of a drop close to zero, with a very small chance of a reduction below zero.

The Bank Rate started the financial year at 0.25% and the Bank of England implied a rise in Bank Rate in "the coming months" at their September meeting. Arlingclose however is not convinced that the UK's economic outlook justifies such a move at this stage and are forecasting that it will remain at 0.25% for the remainder of 2017-18.

3. Borrowing Strategy and Outturn for 1 April to 30 September 2017

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 in section 6 below. 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.

The last time the Council took long term borrowing was £5m from the PWLB in March 2012 and it is not expected that there will be a requirement for any new long term borrowing in 2017-18, however for cash-flow purposes £2 million short term borrowing was taken 24 May 2017 and repaid 5 June 2017. Following advice from Arlingclose, the Council approached the LOBO's lender for potential repayment options however the premium was deemed too excessive to action. Market conditions have meant that there has been no loan rescheduling so far this year however, in conjunction with Arlingclose, the loan portfolio will continue to 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.

4. Investment Strategy and Outturn for 1 April to 30 September 2017

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 2017-18 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 2017-18 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 diversifying into more secure and/or higher yielding asset classes during 2017-18 any new instruments used will be in full consultation with the Council's Treasury Management advisors. 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 investments (a custody account) as we are unable to deal direct. On 5 September 2017, Cabinet approved the opening of a King & Shaxson custody account. It also delegated authority to the Section 151 Officer, in consultation with the Monitoring Officer, to open additional custody accounts to support delivery of Treasury Management responsibilities if required. The custody account was not used prior to 30 September 2017.

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 is therefore 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.

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.

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 in the tables below, the majority of surplus cash has been held as short term investments with UK Local Authorities, 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.

There are three long term investments (original duration of 12 months or more) outstanding as at 30 September 2017 totalling £6 million with Local Authorities - £2 million maturing in November 2017, £3 million maturing in November 2020 and £1 million maturing in December 2020. All other investments at 30 September 2017 are short term (deposit or notice accounts or fixed term deposits). The table below details these investments by counterparty type:

Investment Counterparty Category	Balance 01 April 2017 (A) £m	Investments Raised (B) £m	Investments Repaid (C) £m	Balance 30 Sept 2017 (A+B-C) £m	Average Duration Investments in force during Apr - Sept 2017 Days	Average Original Duration of the Investment Days	Weighted Average Investment Balance Apr - Sept 2017 £m	Weighted Average Interest Rate Apr-Sept 2017 %
Govt DMO	-	38.80	38.80	-	8	8	1.49	0.10
Local Authorities	19.50	88.10	80.60	27.00	50	142	32.14	0.46
Building Societies	6.00	8.00	8.00	6.00	57	123	4.83	0.34
Banks (Fixed Maturity)	3.00	8.00	3.00	8.00	120	209	6.83	0.61
Money Market Fund (Instant Access)*	-	3.40	3.40	-	n/a	n/a	0.46	0.18
Banks Instant Access/Notice Period *	5.25	53.65	55.90	3.00	n/a	n/a	5.39	0.37
Total/Average	33.75	199.95	189.70	44.00	59	120	51.14	0.45

* An average duration is not shown as there is no original duration as instant access or notice period and money is added and withdrawn to/from these accounts as required by cash-flow

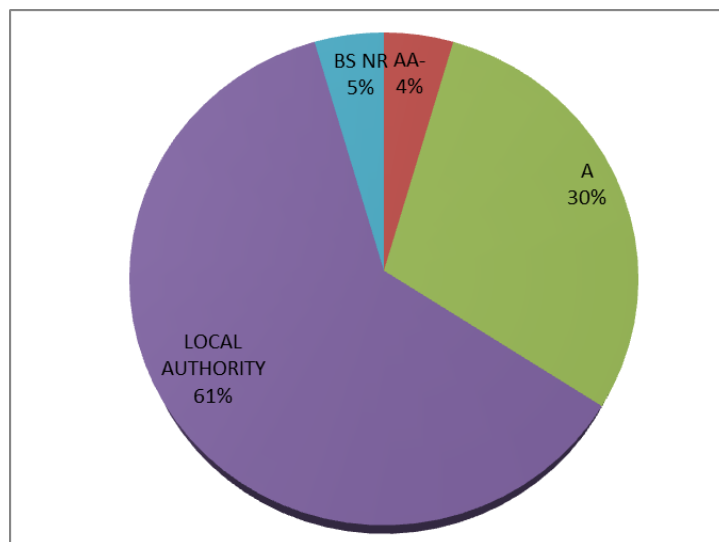
The Council also opened an account with the CCLA Public Sector Deposit Fund in August 2017 which is a pooling of public sector deposits wholly aligned with the principles and values of the public sector. It is UK domiciled and regulated by the Financial Services Authority. There is also an advisory board representing the public sector depositors which ensures strong governance arrangements of the Fund and is an approved financial instrument in our Treasury Management Strategy 2017-18 and provides instant access to the funds. Investment in the fund complies with the conditions that current regulations set out as any investment is for the prudent management of the Council's financial affairs and complies with the Council's constitutional requirements and with the approval delegations in place. It is also a safer investment as the chance of bail in if a bank was in difficulty is reduced. There was no balance outstanding at 30 September 2017.

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 most 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 2017.

Favourable cash flows have provided positive cash balances for investment and as shown above the balance on investments at 30 September 2017 was £44.00 million. The table below shows a breakdown by counterparty type based on the remaining maturity period as at 30 September 2017:

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	-	-	11.00	2.00	4.00	6.00	4.00	27.00
Building Societies	-	-	4.00	2.00	-	-	-	6.00
Banks	-	3.00	3.00	1.00	2.00	2.00	-	11.00
Total	0.00	3.00	18.00	5.00	6.00	8.00	4.00	44.00

The Council defines high credit quality as organisations and securities having a credit rating of A- or higher and **Appendix B** shows the equivalence table for credit ratings for Fitch, Moody's and Standard & Poor's and explains the different investment grades. The pie chart below summarises the above table by credit ratings and shows the £44.00 million investments at 30 September 2017 by percentage outstanding. Most Local Authorities do not have credit ratings and unrated building societies (shown as BS NR below) were all approved by Arlingclose whilst the remainder of our investments all had a credit rating of A or above.



The Council participates in a benchmarking exercise with Arlingclose but the benchmarking data from them is not available as at 30 September 2017, however, as shown below, the Council's average rate of return at 30 June 2017 on investments was more favourable compared to the average of Arlingclose Welsh Local Authority clients:

2017-18	Bridgend CBC Average Rate of Return on Investments	Arlingclose Welsh Local Authorities Clients Average Rate of Return on Investments
30-06-17	0.45%	0.40%

5. Review of the Treasury Management Strategy 2017-18

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 2017-18.

6. Treasury Management and Prudential Indicators 2017-18

Details of the estimate for 2017-18 set out in the Council's Treasury Management Strategy and also the projected indicators for 2017-18 are shown below.

Treasury Management Indicators 2017-18

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.

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 2017-18 £m	Projection 31-03-2018 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2017	96.87	96.87
	Total Projected Principal Outstanding on Investments 31 March 2017	24.00	24.00
	Net Principal Outstanding	72.87	72.87
1.	Upper Limit on fixed interest rates (net principal) exposure	130.00	68.62
2.	Upper Limit on variable interest rates (net principal) exposure	50.00	4.25

The Section 151 Officer will manage interest rate exposures between these limits in 2017-18.

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 paragraph 4.1.2 of the main report. 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 2018, 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 2017-18	Upper limit	lower limit	Projection 31-03-18
3.	Under 12 months	50%	0%	19.87%
	12 months and within 24 months	25%	0%	-
	24 months and within 5 years	25%	0%	-
	5 years and within 10 years	50%	0%	13.91%
	10 years and within 20 years	60%	0%	23.49%
	20 years and above	100%	40%	42.73%

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 2017-18 (Limit) £m	Projection Principal Outstanding Over 364 days 31-03-18 £m
4.	Upper Limit for Total Principal Sums Invested for more than 364 days	15	6

Prudential Indicators 2017-18

The Prudential Indicators are required to be set and approved by Council in accordance with CIPFA's Prudential Code for Capital Finance in Local Authorities. Council is required to formally adopt CIPFA's Treasury Management Code and the revised version of the 2011 code was adopted by Council on 22 February 2012.

Prudential Indicators for Prudence

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	Projection 31-03-18
		2017-18 £m	£m
1	Estimates of Capital Expenditure Non – HRA	63.85	46.23
	Total Capital Expenditure	63.85	46.23
	Financed by :-		
	Capital Grants and Contributions	24.37	13.85
	Capital Receipts	20.04	14.82
	Revenue Contribution to Capital	9.92	6.54
	Net Financing Need for Year	9.52	11.02

The capital expenditure figures have changed from the Treasury Management Strategy 2017-18 as further information on the capital spend has become available and this has resulted in an increase in the Net Financing Need for 2017-18 which will be an increase in Unsupported Borrowing.

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 2017-18. Directorates who receive Council approval for capital schemes via Unsupported Borrowing make annual contributions to the capital costs of their schemes known as Voluntary Revenue Provisions (VRP) or additional MRP. This type of borrowing is only approved when Directorates have the necessary revenue resources to make VRP to fund the capital costs though this will be deferred in some cases until the asset becomes operational in accordance with the Council's MRP Policy.

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 Council Fund in line with the Prudential Code.

The MRP requirement for the Maesteg School 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 2017-18 £m	Projection 2017-18 £m
2	Capital Financing Requirement (CFR)		
	Opening CFR (1 April 2017) adjusted excluding PFI & other liabilities	150.65	149.80
	Opening PFI CFR	18.24	18.24
	Opening Innovation Centre	0.66	0.66
	Opening Coychurch Crematorium	0.08	0.08
	Total Opening CFR	169.63	168.78
	Movement in CFR excluding PFI & other liabilities	2.90	4.54
	Movement in PFI CFR	(0.60)	(0.60)
	Movement in Innovation Centre CFR	(0.06)	(0.06)
	Movement in CREM CFR	(0.08)	(0.08)
	Total Movement in CFR	2.16	3.80
	Closing CFR (estimated 31 March 2018)	171.79	172.58
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	9.52	11.02
	Minimum and Voluntary Revenue Provisions*	(7.36)	(7.22)
	Total Movement	2.16	3.80

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

Limits to Borrowing Activity

The Council's long term borrowing at the 30 September 2017 was £96.87 million as detailed in section 4.1.1 of the Treasury Position. 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 especially when a Council is using Internal Borrowing as highlighted in paragraph 4.3.4 in the main report.

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

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2017-18 Est. £m	Projection 31-03-18 £m
3	Gross Debt 31 March		
	External Borrowing	96.87	96.87
	Long Term Liabilities (including PFI)	21.07	21.07
	Total Gross Debt	117.94	117.94

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 2017-18. The table below shows that the Council is on target to comply with this requirement.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2017-18 £m	Projection 31-03-18 £m
4	Gross Debt & the CFR		
	Total Gross Debt	117.94	117.94
	Closing CFR (31 March 2018)	171.79	172.58

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 2017-18 £m	Projection 31-03-18 £m
5	Authorised limit for external debt -		
	Borrowing	140	
	Other long term liabilities	30	
	Total	170	
6	Operational Boundary		
	Borrowing	105	
	Other long term liabilities	25	
	Total	130	
	Borrowing		97
	Other long term liabilities		21
	Total		118

2.3 Prudential Indicators for Affordability

2.3.1 The **Ratio of Financing Costs to Net Revenue Stream** indicator 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 Welsh Government 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 2017-18	Projection 2017-18
7.	Ratio of Financing Costs to Net Revenue Stream	4.84%	4.76%

Credit Rating Equivalence Table

	Description	Fitch		Moody's		Standard & Poor's		
		Long	Short	Long	Short	Long	Short	
INVESTMENT GRADE	Extremely strong	AAA		Aaa		AAA		
	Very strong	AA+	F1+	Aa1	P-1	AA+	A-1+	
		AA		Aa2		AA		
		AA-		Aa3		AA-		
	Strong	A+	F1	A1	P-2	A+	A-1	
		A		A2		A		
		A-		A3		A-		
	Adequate	BBB+	F2	Baa1	P-3	BBB+	A-2	
		BBB		Baa2		BBB		
		BBB-		Baa3		BBB-		
SPECULATIVE GRADE	Speculative	BB+	B	Ba1	Not Prime (NP)	BB+	B	
		BB		Ba2		BB		
		BB-		Ba3		BB-		
	Very speculative	B+	B	B1		Not Prime (NP)	B+	B
		B		B2			B	
		B-		B3			B-	
	Vulnerable	CCC+	C	Caa1		Not Prime (NP)	CCC+	C
		CCC		Caa2			CCC	
		CCC-		Caa3			CCC-	
		CC		Ca			CC	
	C				C			
Defaulting	D	D	C		D	D		

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

16 NOVEMBER 2017

REPORT OF THE HEAD OF FINANCE AND SECTION 151 OFFICER

HOUSING BENEFIT – SAMPLE TESTING

1. Purpose of Report

- 1.1 The purpose of the report is to update the Committee on the outcome of further error testing work which has been carried out on Housing Benefit claims following the work which was carried out by the Wales Audit Office.

2. Connection to Corporate Plan / Other Corporate Priorities.

- 2.1 The administration of Housing Benefits impacts upon many low income and potentially vulnerable residents in the County Borough.

3. Background

- 3.1 The Wales Audit Office (WAO) are the council's external auditors. As part of the WAO's work to check that the council's year end accounts represent a "true and fair view", they tested a sample of 45 Housing Benefit cases. They found that the sample contained 11 cases with errors. These findings were then extrapolated, according to normal auditing practice to calculate a hypothetical error of c. £1.9 million. As explained to the Audit Committee in the previous meeting, this extrapolation is purely for the purposes of establishing whether a particular matter could materially affect the council's accounts. The WAO determined the matter was significant, but not material in respect of the council's 2016-17 financial statements.
- 3.2 In recognition of this finding, further work has been carried out by council officers to establish whether there is indeed a larger underlying issue. This is in addition to Internal Audit work scheduled to take place over the coming months and the annual Housing Benefit Subsidy audit carried out by WAO to validate the council's submission to the Department for Work & Pensions.

4. Current situation

- 4.1 The 11 errors identified in initial testing could be categorised into the different types, as shown in Table 1 below.

Table 1

Types of errors	Number of cases affected	Total financial adjustments	
		Underpayment £	Overpayment £
Income and Tax credits	6	222.30	387.85
Rent changes	3	571.00	16.46
Non-dependants	1	1,889.45	
Other (no financial impact)	1	0	0
Total:	11	2,682.75	404.31

4.2 For each of the three types resulting in financial adjustments, a further 40 cases have been checked, totalling 120 cases. The cases were independently selected by WAO, checked by a Housing Benefits Manager, and are currently being reviewed on a sample basis by the WAO.

4.3 Details of the results of further testing are summarized in Table 2 below.

Types of error checking conducted (on a 40 case sample per area)	Number of errors found	Total financial adjustments	
		U/P £	O/P £
Income and Tax Credits	2 from 40	7.51 ¹	29.06 ²
Non-dependants	0 from 40	0	0
Rent changes	1 from 40	0	0
Total:	3 from 120	7.51	29.06

4.4 The test sample of 120 cases identified 3 errors, of which two required financial adjustments. These were

1: an underpayment where the disregard of 50% (£0.71 weekly) of the contribution to works/occupational pension had been incorrectly calculated. This resulted in an underpayment of £7.51 in total from 4 April 2016 to 19 March 2017.

2: an overpayment of £29.06 for a one off period from 8-21 August 2016, where earnings has wrongly been applied from the pay date and not for the pay period.

For reference, the service estimates the average level of Housing Benefit administered by the service is typically around £80/week, therefore it can be assumed that the approximate value of the 120 cases may be around £500,000. The overpayment has been determined as local authority error and will not be recovered, and instead it will be written off. In the case of the underpayment this amount has now been paid following correction of the claim.

The WAO are required to perform further testing on the sample of 120 cases. This will involve checking a 10% sample of each of the case types (12 in total) in addition to the three errors identified. This work is in progress and a verbal update will be given during the meeting.

- 4.5 Following on from the checking of total Local Housing Allowance expenditure, further testing has also been carried out by WAO on expenditure for non-Housing Revenue Account rent rebates. This audit work was necessary as part of the WAO's routine testing of the council's annual housing benefit claim. This area of Housing Benefit expenditure covers costs for temporary accommodation, hostels and bed & breakfast accommodation.

Follow a number of errors identified initially, every single bed & breakfast assessment, totalling 68 cases, have been checked. An identical error was detected in all cases. Ineligible fuel costs had been overstated by £1.93 per week, leading to an underpayment.

Each case has been corrected and underpayments ranged from £0.28 to £25.09, and there is one overpayment of £61.20. The total error across the caseload was £347.28 out of total expenditure of circa £37,000. All the cases have been corrected and the payments made good. This error was attributable a historic differential between bed & breakfast rates and statutory deductions which has changed over time and will be now be addressed as part of the annual check, preventing this in future.

One further error was identified by the WAO in this sample which does affect the subsidy claim to DWP by £0.72.

It is 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.

- 4.6 Further testing has been carried out on 20 cases not linked to bed & breakfast cases. One error was found relating to the calculation of a monthly average for occupational pension income. This was found to be a typing error and resulted in an underpayment of £0.10.

The WAO asked for further testing for cases of this type with occupational pension income. Most cases within this category were recipients in receipt of "pass-ported" benefits like Income Support, Jobseekers Allowance (income-based), Employment & Support Allowance (income-related) or Pension Credit (guarantee-credit). 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 will also be subject to WAO review.

- 4.7 The WAO have also commenced the required testing on "Modified schemes" (typically war pensions). This work is ongoing and a verbal update will be provided during the meeting.

5. Effect upon Policy Framework & Procedure Rules

- 5.1 None

6. Financial Implications

6.1 These are reflected in the body of the report.

7. Equality Impact Assessment

7.1 There are no equality implications.

8. Recommendation

8.1 The Committee is recommended to note the report.

Randal Hemingway
Head of Finance and Section 151 Officer

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Background documents

None

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

16 NOVEMBER 2017

REPORT OF THE HEAD OF FINANCE

CORPORATE RISK ASSESSMENT 2017-18 – COMMUNITIES DIRECTORATE RISKS

1. Purpose of Report.

- 1.1 The Audit Committee oversees risk management within the Council. The purpose of this report is to enable the Audit Committee to take an in-depth review of the risks contained within the corporate risk register pertaining to the Communities directorate.

2. Connection to Corporate Plan / Other Corporate Priority.

- 2.1 Effective risk management is an essential part of the framework for ensuring good corporate governance and supports delivery of the Council's Corporate Improvement Priorities.

3. Background.

- 3.1 At the meeting of the Audit Committee on 28 September 2017, the committee agreed to invite the relevant risk owners from the council's senior management team to future meetings in order to provide a more in-depth explanation of the risks included within the register, including the mitigation measures in place.
- 3.2 The Audit Committee's Terms of Reference require 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.
- 3.3 The 2017-18 Corporate Risk Assessment was approved by Council on 1 March 2017 and is fully aligned with the Council's Medium Term Financial Strategy and Corporate Plan.

4. Current situation / proposal.

- 4.1 The first area of the council's services to be reviewed by the committee is the Communities Directorate. The relevant extract from the Corporate Risk Assessment is attached as **Appendix 1**. It identifies the main risks facing the Directorate, the likely impact of these on services and the wider County Borough and what is being done to manage the risks.
- 4.2 The relevant members of the Communities Directorate senior leadership team will present the risks and mitigations to the committee during the meeting.

5. Effect upon Policy Framework & Procedure Rules.

5.1 None as a direct consequence of this report.

6. Equality Impact Assessment.

6.1 Equality issues permeate many of the risks identified and where appropriate equality impact assessments are undertaken within the process of approving the mitigating actions.

7. Financial Implications.

7.1 There are no financial implications directly associated with the risk assessment. Actions planned to mitigate each risk are required to be progressed within approved budgets.

8. Recommendation.

8.1 That Members review the risks contained within Appendix 1 and receive the presentation given by the Communities Directorate Senior Leadership Team.

Randal Hemingway
Head of Finance
16 November 2017

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Background documents

None

Priority Theme	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
Supporting a successful economy	<p>The economic climate and austerity:</p> <p>If the economy continues to perform badly the quality of life for residents will suffer. There will be no positive long lasting economic, environmental and social change as our towns, local businesses and deprived areas suffer decline.</p> <p>Individuals, particularly young people, may be unable to secure employment because they lack the basic skills and confidence necessary and suitable jobs are not available in the economy.</p> <p>There will be cuts in Welsh Local Government spending over the MTFS period 2017-18 to 2020-21. These cuts will impact on the local economy disproportionately because the Council is one of the key local employers.</p> <p>Following the EU Referendum there is great uncertainty about the impact on resources. Bridgend County Borough receives significant levels of EU funding. Current programmes run to the 2020-21 financial year and there is approved funding of £4.926m. In addition there are also further grant applications of up to £18m at various stages of development. There is uncertainty about what will happen to ongoing projects now that Article 50 has been triggered. Once the UK is outside of the EU there is even less certainty about funding because monies may be redirected away from regeneration to other government priorities.</p> <p>In addition there is a greater risk of general economic downturn</p>	<p>There will be cuts in the public sector and these will disproportionately affect regeneration activities as spending on other services are protected.</p> <p>Reductions in regeneration funding have a disproportionate affect because each £1 of Council funding leverages between £8 and £13 from other sources.</p> <p>There could be further job losses and business failures in the local economy if the UK and European economies don't get stronger. The quality of life within the County Borough may decline.</p> <p>Pressure will be placed on diminishing Council services which support local businesses and employment.</p> <p>Town centres continue to suffer, predominantly the retail sector. Without regeneration they will not be attractive places to visit or able to compete with retail developments in neighbouring centres such as Talbot Green and Neath. Even with regeneration, competition and resilience will be difficult, as the nature of town centres is changing.</p> <p>The proposed regeneration programme assumes £2.6m of capital receipts. This includes an anticipated receipt from Porthcawl Regeneration Phase 1.</p> <p>Existing capital schemes will be</p>	<p>Likelihood - 5</p> <p>Impact - 4</p> <p>Total - 20</p>	<p>The Council supports the business community via the Business Forum, Bridgend Tourism Association, the Destination Management Partnership, Coastal Partnership, and town centres, through the Town Centre Manager and THI Programmes. Targeted investments have been made and successes achieved in key sectors such as tourism and the encouragement of micro business centres. The Council is working with Bridgend Business Forum to review business support in the context of the Cardiff Capital Region City Deal and establish a development strategy;</p> <p>The Council also supports the Bridgend Business Improvement District (BID). Businesses have voted in favour of establishing a Business Improvement District in the town centre and a manager has been appointed. There will now be increased investment into the town's economy from the proceeds of the BID levy over the next three years and key issues which affect the success of the town can be addressed transforming Bridgend into a better place to do business.</p> <p>The Council has an apprenticeship programme in operation.</p> <p>The Smart System and Heat project puts Bridgend at the forefront of emerging technology but key decisions must be made about project delivery.</p> <p>Increasing footfall via a greater number of residents living in town centres and by running high quality events.</p> <p>The Bridgend local development strategy under the Rural Development Plan for Wales has been approved with a funding allocation of £1.886m.</p> <p>Implement the Youth Engagement And Progression Framework.</p> <p>Strategic Regeneration Fund (SRF) allocations are committed to projects up to 2016-17. However, following the announcement of the WG's Structural Funding Programme 2014-20, and the additional funding that can be secured using the SRF as matched funding, it has been agreed that the period of matched funding in the capital programme up to and including the 2020-21 financial year has been extended.</p> <p>A cross directorate working group will continue to co-ordinate the development and delivery of European funded projects. A package of employment support projects are being taken forward for European Social Fund grant aid.</p>	<p>Corporate Director</p> <p>Communities</p>	<p>Likelihood - 4</p> <p>Impact - 4</p> <p>Total - 16</p>

Priority Theme	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
	<p>following the vote to leave the EU. This is highly likely to impact on local economic viability and jobs.</p> <p>If the economy is less buoyant the Local Development Plan (LDP) will come under increasing pressure because sites available under the LDP become less attractive to housing developers.</p> <p>The drainage and flood risk mitigation requirements from NRW have become much more onerous on capital schemes</p>	<p>affected if there are cost over-runs on regeneration projects. There is no provision to fund unforeseen works.</p> <p>As a result of cuts in the service, the Council is unable to provide a coherent economic development response to the impact of Brexit, and fails to meet the needs of businesses and citizens, resulting in reputational damage and an increase in complaints.</p> <p>Delivery of housing was on track in 2015 but slipped behind target in 2016. If the LDP fails Housing developers may come forward with alternative projects on sensitive sites which may escalate to appeals.</p> <p>The drainage and flood mitigation requirements from NRW impact all capital projects causing delay and often extra cost. In some cases schemes become unviable and cannot be developed.</p> <p>Many towns are built on rivers, and this could have a severe impact on the corporate priority to regenerate town centres.</p>		<p>Bridgend</p> <p>The Rhiw Car park redevelopment, aimed at bringing footfall and vitality to the town centre, is now complete, but work is still underway on the residential development. The project, funded by WG via a Vibrant and Viable Places grant, is on track.</p> <p>Parts of the Parc Afon Ewenni development scheme will become available for housing development.</p> <p>Maesteg / Llynfi Valley</p> <p>The first stage of desktop feasibility work on the Llynfi Valley sites has been completed. The town centre action plan is being implemented and is funding a range of activities in partnership with local stakeholders. The final evaluation of Maesteg THI has been issued, and confirms the success of the scheme in bringing historic buildings back into economic use in the town. A project submission has been made for Maesteg Town Hall under WG's Building for the Future programme and this has been prioritised for European funding.</p> <p>Porthcawl</p> <p>A new masterplan is being produced in support of phase 1 of the Seven Bays Project.</p> <p>Considerable progress has been made on regeneration in Porthcawl, including the completion of refurbishment of key buildings in the harbour quarter through £890,000 of THI funding and further development of the Maritime Centre project. The Partnership Action Plan for the town centre is being implemented.</p> <p>The Council was successful in its bids to the Coastal Community Fund and for £4.5m of Attractor Wales money. This is funding a maritime and water sports centre, where work is underway, and an extension of the coastal pathway which has been completed.</p> <p>WG funding for a new town centre partnership is now delivering projects.</p> <p>Refurbishment of the Jennings building will be completed this summer. This includes restaurants and cafes plus live/work residential units.</p> <p>Cardiff Capital Region has secured a City Deal worth £1.28billion. This will allow Councils and partners to unlock significant growth across the Cardiff Capital Region. The City Deal will provide an opportunity to continue tackling the area's barriers to economic</p>		

Priority Theme	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
				<p>growth by: improving transport connectivity; increasing skills levels still further; supporting people into work; and giving businesses the support they need to innovate and grow. The Council is contributing to the development of the business plan for the Cardiff Capital Region City Deal, with the aim of bringing increased investment and economic control into the local area. A joint project is being developed to establish a network of enterprise hubs across the City Region, building on the Sony model in Bridgend. An options appraisal has been completed in draft to consider the future land use planning framework for South East Wales.</p> <p>Updated flood risk assessments can be prepared for sensitive areas such as town centres. There may be a need to explore a mixed approach to risk management, by developing updated flood evacuation plans, rather than have schemes fail to progress as a result of the prohibitive cost of mitigation measures.</p> <p>The Bridges into Work 2 (BIW2) project was originally funded to March 2018. WEFO have approved an extension until March 2020. The project targets help to the economically inactive and long-term unemployed people over the age of 25.</p>		
<p>Supporting a successful economy</p> <p>Smarter use of resources</p>	<p>Disposing of waste:</p> <p>The EU Waste Framework Directive promotes waste prevention and increased recycling.</p> <p>WG's waste strategy 'Towards Zero Waste' sets challenging targets. Since 2012-13 there has been an obligation to recycle / compost 52% of waste and this will rise to 64% by 2019-20 and 70% by 2025. A new service, which will deliver improved performance, has commenced.</p> <p>The vehicles being used for recycling under the new service are the same as those used under the old. From October 2017 Kier will be introducing new high capacity vehicles which will result in some rerouting. There is a risk that the service will suffer further disruption and miss collections as the new arrangements bed in.</p>	<p>Failure to achieve recycling/composting targets could result in:</p> <ul style="list-style-type: none"> Inefficient use of resources as waste goes to landfill sites Penalties of £200 per tonne if we fail to achieve landfill allowance targets. This would mean less money to spend on council services. <p>Increased recycling has a knock on effect to the contract requirements of MREC.</p> <p>Inconvenience to residents and reputational damage to the Council when miss-collections take place.</p>	<p>Likelihood - 5</p> <p>Impact - 4</p> <p>Total - 20</p>	<p>A new waste and recycling contract commenced with Kier in April 2017. This will improve the Council's environmental performance protecting future generations. It will assist the Council in meeting the WG waste targets and avoid the imposition of fines.</p> <p>Under the new contract, service delivery changed from 5 June 2017. The Council is continuing to collect waste on a fortnightly basis however homes are now limited to a two bag collection policy. The capacity volume of recycling sacks provided has been increased at the same time as the residual waste is reduced. Additional allowances are made in certain circumstances.</p> <p>Following the launch, there was always going to be disruption as vehicles were rerouted and the new scheme was implemented. This was expected. However in weeks two and three it is accepted that the recycling collection was badly resourced as the contractor misjudged the level of resource required. Service levels dropped by an unacceptable degree. The levels of miss-collecting of recycling are now improving week on week and correct collections are now well above 99%. Unfortunately some residents who are receiving poor service are repeatedly suffering the same errors.</p> <p>The Council also introduced an absorbent hygienic products collection and the delivery of this service has also been poor. Some bags have not been delivered to residents and some collections have not taken place. Blue bag residual waste, bulky waste and garden waste all have low levels of miss-collection.</p>	<p>Corporate Director</p> <p>Communities</p>	<p>Likelihood - 4</p> <p>Impact - 4</p> <p>Total - 16</p>

Priority Theme	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
				<p>Kier, are due to introduce new high capacity recycling vehicles in October 2017. The level of resource must be correct and there must be sound plans for implementation.</p> <p>The introduction of the Council's new waste collection policy has been supported by the appointment of a team of education and engagement officers.</p> <p>BCBC and Swansea CBC have agreed a 15 year contract for all household food waste to be processed at Parc Stormy within the County Borough. The process produces methane gas, which is collected to power a generator and produce electricity that is exported to the national grid. The remaining material becomes a bio-fertilizer which is applied to nearby farm land.</p> <p>A tender was let to allow an operator to provide residual waste handling facilities at MREC. The results and their implications are being considered.</p>		
Helping people to be more self-reliant	The Council must continue to find innovative ways of working to maximise the impact of reduced resources. This includes Community Asset Transfer (CAT) of assets including parks pavilions, playgrounds and playing fields. If the Council does not find ways to promote healthy living the emotional and physical wellbeing of citizens will suffer			<p>The Council is pursuing CAT with priority given to assets that are linked to proposals within the MTFs. Up to £200,000 had been set aside in the Change Management earmarked reserve to fund a fixed term dedicated CAT Officer. Priority 1 CAT proposals include parks pavilions, community centres, public conveniences and bus shelters and priority 2 playgrounds and playing fields. The success of the proposals depends on the proactive participation of Town and Community Councils and community organisations, together with their ability to manage the asset. Different assets will generate different levels of interest. There is a £100,000 per annum over three years, ring fenced for capital investment for Town and Community Councils as well as potentially £1m prudential borrowing for sports pavilions to ensure that they are in a good condition, to encourage take up of assets.</p> <p>The Council works with partners to develop projects that tackle health issues such as weight management, harmful drinking and smoking. The Welsh Health Survey indicates a 4% reduction in smoking rates with Bridgend below the Welsh average.</p>	Corporate Director Communities	Likelihood - 4 Impact - 4 Total – 16

Priority Theme	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
Supporting a successful economy	<p>Maintaining infrastructure:</p> <p>If there is further harsh weather there may be an increase in the number of roads in poor condition, more repairs being required in the future and the Council might fail to meet its statutory obligations. The risk is exacerbated because the Local Government Borrowing Initiative (LGBI) has ended and reductions must be found in the Highways budget.</p>	<p>Failure to maintain infrastructure will result in the Council not meeting its statutory obligations and the % of roads that are in overall poor condition increasing.</p> <p>A poor quality highway network leads to increased third party liability claims, a loss of reputation, a possible adverse impact on economic activity and reduced quality of life for citizens.</p> <p>Further budgetary pressures could occur due to unpredictable weather patterns and the worsening condition of the infrastructure. This will lead to an increased requirement for emergency repairs.</p>	<p>Likelihood - 5</p> <p>Impact - 4</p> <p>Total - 20</p>	<p>The LGBI provided funding of around £6.8m over the period 2012-15 for highway infrastructure improvements. The principal adopted for the programme of works was to provide good quality resurfacing which will be sustainable in the long term rather than quick overlay which requires higher maintenance in future years. 2014-15 was the last year of the LGBI and there has now been a reduction in maintenance budgets.</p> <p>In 2017-18 there will be budget reductions in the areas of winter maintenance, weed spraying, technical surveys and road marking.</p> <p>The Highways and Transport capitalised annual allocation was maintained at £200,000.</p> <p>Unless there is further investment there will now inevitably be deterioration in the proportion of roads that are in a satisfactory condition and an increase in expensive reactionary maintenance.</p> <p>The Council's Highways Asset Management Plan provides information to assist the Council in considering the highway asset risk and apportion funding from the Council's budget strategy. The ability to digitally scan the highway helps in objective decision making but fewer scans will now be made.</p> <p>The risk around the condition of the highway will be managed by a proactive system of highway inspections and by responding positively to complaints.</p>	<p>Corporate Director</p> <p>Communities</p>	<p>Likelihood - 4</p> <p>Impact - 4</p> <p>Total - 16</p>

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

16 NOVEMBER 2017

REPORT OF THE CHIEF INTERNAL AUDITOR

UPDATED EXTERNAL ASSESSMENT OF INTERNAL AUDIT SHARED SERVICE

1. Purpose of Report

- 1.1 To provide Members with 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.

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 External Assessments are required to be undertaken to appraise and express an opinion about internal audit's conformance with the Public Sector Internal Audit Standards (PSIAS) Definition of Internal Auditing and Code of Ethics and to include recommendations for improvement, as appropriate. An external assessment must be conducted at least every five years, in accordance with the PSIAS.
- 3.2 At the Committee meeting held on 28th January 2016, Members expressed their preference for the External Assessment against the PSIAS to be carried out by an independent organisation rather than by Peer Review. As a consequence, a procurement exercise was undertaken to procure the most economically advantageous organisation to undertake an external assessment of the Bridgend and Vale Internal Audit Shared Service; ensuring compliance with the Council's Contract and Financial Procedure Rules. This resulted in the commissioning of the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake the assessment.

4. Current situation / proposal

- 4.1 The review commenced on the 30th January 2017 and the on site assessment concluded on the 3rd February 2017. The report was presented to the Audit Committee at its meeting held on the 29th June 2017 together with the Action Plan (including responses and action dates).
- 4.2 It was agreed that regular progress reports against the implementation of the recommendations and suggestions for improvement would be presented to the Audit Committee during 2017/18.
- 4.3 Attached at **Appendix A** is the up to date Action Plan for the Audit Committee's consideration.

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 resource implications as a direct result of this report

8. Recommendation.

8.1 That the Committee considers the Action Plan as attached and note the progress that has been made so far to-date.

Helen Smith
Chief Internal Auditor
16th November 2017

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Background Documents

None

**Bridgend and Vale Internal Audit Shared Service
Appendix A: action plan update**

Recommendations No	Recommendation	Response	Responsible officer	Action date	Status
R1	Include the Mission in the Charter	Agree	CAE	March 17	Complete
R2	Expand the audit brief to cover: Service contribution to strategic objectives Objectives of the service Objectives of the audit Links to any council risk registers The criteria used to judge the service, e.g. performance measures, best practice guidance, legal framework, etc., Risks to be examined, including fraud and errors Compliance with laws, regulations, policies, procedures and contracts Achievement of strategic objectives Reliability and integrity of financial and operational information Safeguarding assets Consideration of relevant systems, records, personnel and physical properties Adding value and value for money, including	Agree	CAE	June 17	Complete

	effectiveness and efficiency of operations and programmes				
R3	Define assurance work in the Charter, making the link to giving the opinion	Agree	CAE	March 17	Complete
R4	Include a definition of senior management in the Charter	Agree	CAE	March 17	Complete
R5	Include the requirement to inform internal audit of all suspected and detected frauds, financial or otherwise, corruption or impropriety in each council's anti-fraud policy	Agree	CAE / Monitoring Officers	Sept 17	Ongoing
R6	Report satisfaction questionnaire results in annual report	Agree	CAE	March 17	Complete
R7	Include a review against the LGAN, where it goes beyond the PSIAS, and against the Manual	Agree	CAE	June 17	Complete
R8	Report performance indicators over time in the annual report	Agree	CAE	March 17	Complete
R9	Include reference to the delivery and development of the service, the Charter and audit's contribution to the objectives and priorities of each Council in the annual audit plan	Agree	CAE	April 17	Complete

No	Recommendation	Response	Responsible officer	Action date	Status
R10	Refer to the audit service being provided internally in the Charter and annual plan	Agree	CAE	April 17	Complete
R11	Differentiate between assurance and other work in the plan	Agree	CAE	April 17	Complete
R12	Undertake ethics work, either separately or clearly identified as part of broader governance work and be more overt about ethical matters considered in individual audits	Agree	CAE	During 2017/18	Ongoing
R13	Undertake periodic audits of risk management arrangements	Agree	CAE	During 2017/18	Ongoing
R14	Move the emphasis in work programmes to risk, using the revised audit brief	Agree	CAE	Plan year 2017/18	Ongoing
R15	Approve all work programmes before implementation	Agree	Principal Auditors	Plan year 2017/18	Complete
R16	Introduce formal review at: Audit brief Work programme Draft report as a minimum	Resource permitting	CAE / Principal Auditors	Plan year 2017/18	Complete
R17	Include the requirement to comply with the LGAN in the audit manual	Agree	CAE	Immediate	Complete
R18	Include the CIA's name on audit reports as the person responsible for issuing it	Agree	CAE	Immediate	Complete

Suggestions No	Suggestion	Response	Responsible officer	Action date	Status
S1	Look at ways to emphasise compliance with Code of Ethics focussing on actions not processes	Agree include as part of the Section Meeting	CAE	Immediate	Complete
S2	Make the definition of the Board more explicit	Agree	CAE	Immediate	Complete
S3	Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	Agree	CAE	March 17	Complete
S4	Staff need to be encouraged to take advantage of the training offered to them	Agree and will continue to encourage.	CAE	Immediate	Complete
S5	Include peer officer or member reviews of audit within the five year cycle	Will endeavour to do so during the five year cycle, wholly dependent on resource	CAE	2020/21	Ongoing
S6	Include details of other sources of assurance and the nature of those assurances in the annual plan	Agree	CAE	April 17	Complete
S7	Look at ways to streamline and summarise in audit working papers	Agree, this will be ongoing during 17/18	CAE	2017/18	Ongoing
S8	Consider the value of splitting the opinion into different aspects and/or giving an opinion per risk and/or adding in an element of context	Will consider this during 2017/18 once resource issues are resolved.	CAE	2017/18	Ongoing
S9	Look at ways to reduce the length of the detailed report	Will consider this during 2017/18	CAE	2017/18	Ongoing

	and combine findings and recommendations to ease reading	once resource issues are resolved.			
S10	Formalise the current informal arrangements regarding raising matters for inclusion in the risk register		Disagree. Sufficiently formal systems are already in place		N/A

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

16 NOVEMBER 2017

REPORT OF THE CHIEF INTERNAL AUDITOR

UPDATE ON STAFF VACANCIES WITHIN THE INTERNAL AUDIT SHARED SERVICE

1. Purpose of Report

- 1.1 To provide Members with an update on the current staff vacancies within the Internal Audit Service.

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 Members have previously raised concerns as to the level of vacancies being carried by the service and, as a consequence of these concerns, and, as requested by the Audit Committee, an update on the current staffing vacancies is provided for Members' information.
- 3.2 Regular updates on the Internal Audit Shared Service and its performance are provided to the Audit Committee. These updates always provide the current status in relation to the structure and the number of vacant posts.
- 3.3 At the Audit Committee meeting held on the 28th September 2017, Members were informed that at the commencement of the Financial Year 2017/18, the Section was carrying 7.5 FTE vacant posts, which had subsequently increased to 9.5 at the time of reporting. In addition, Members were also informed that a re-structure of the service was underway where the proposal was to reduce the number of FTE's from 18 to 14 whilst revisiting the grades to ensure the service can attract the calibre of staff required in a competitive market place.

4. Current situation / proposal

- 4.1 As stated above, regular updates on the performance of the Internal Audit Shared Service are provided to the Audit Committee. These updates always provide the current status in relation to the structure and the number of vacant posts. The Service has been carrying vacant posts since the 2014/15 Financial Year when it was reported that 3 FTE posts within the service were vacant. This has steadily increased year on year culminating in the present position of 9.5 FTE vacancies based on the old structure. It should be noted that with the exception of one member of staff who left for family reasons, the drivers for staff resigning have been for career and / or promotional prospects and salary increase. Despite a number of recruitment campaigns, the service has not been successful in attracting the right calibre of staff.

4.2 It has been necessary to undertake a re-structure of the existing service for a number of reasons and these are listed below. All of these factors have been taken into account when reviewing the structure and future proofing the service.

- The existing structure had been in place since the Joint Shared Service Agreement was established in February 2013.
- Recruitment campaigns have been unsuccessful.
- The Public Sector Internal Audit Standards place a requirement on the Head of Audit to ensure that "internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan". Furthermore, the Head of Audit must ensure that all its internal auditors at all levels within the structure possess the knowledge, skills and other competencies needed to perform their individual responsibilities.
- Local Government, and therefore the role of audit, has changed considerably over the last five years. In addition, with the continuing requirement to work collaboratively with other Local Authorities, and indeed to provide services in a different way, this has meant that the way in which audit is functioning now and will have to function in the future is changing rapidly. This means that staff within the service will require broader skills and a more commercial outlook with regard to the service that they will audit.

4.3 The new staffing structure became effective on the 1st October 2017, reducing the number of full time posts from 18 to 14. As a consequence of this, the number of vacancies held by the service has reduced to 6.5 FTE's. The table below shows the differences between the old and new structures for information.

Old Post Designation	No.	New Post Designation	No.
Operational Manager	1	Operational Manager	1
Principal Auditor (1 vacant)	2	Audit Client Manager (1 vacant)	2
Group Auditor	2	Senior Auditor (3 vacant)	5
Group Auditor (information Security) (vacant)	1	Auditor (1/2 vacant)	4
Auditor (5.5 vacant)	9.5	Audit Assistant (2 vacant)	2
Trainee Auditor (vacant)	1		
Trainee (Information Security) (vacant)	1		
Administrative Assistant	0.5		
Total	18		14

4.4 As can be seen from the table above, the number of vacancies has now reduced from 9.5 to 6.5 FTE's. The table below provides Members with the Grade and Salary Range for each of the vacancies.

Post Designation	Number	Grade	Salary Range (£)
Audit Client Manager	1	K	40,057 to 43,821
Senior Auditor	3	H/I	27,668 to 36,379
Auditor	0.5	G	23,398 to 27,668
Audit Assistant	2	E	17,772 to 20,138
Total	6.5		

4.5 It is 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. This will only be determined when the market is tested. In addition, the section must not lose sight of any future opportunities that might be available to extend the service with other Welsh authorities.

4.6 As a consequence of the vacant posts, the ability to deliver the planned audit days has been affected. In order to address the shortfall in the delivery of the productive days, the Internal Audit Shared Service has commissioned the South West Audit Partnership (SWAP) to under a number of audit reviews on our behalf. The cost of delivering these reviews will be met from within our existing budget.

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 The restructure will result in a budget saving for the service overall.

8. Recommendation.

8.1 That the Committee note the content of the report.

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16th November 2017

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Background Documents
None

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

16 NOVEMBER 2017

REPORT OF THE CHIEF INTERNAL AUDITOR

INTERNAL AUDIT – OUTTURN REPORT – APRIL TO OCTOBER 2017

1. Purpose of Report.

1.1 The purpose of this report is to inform the Audit Committee of actual Internal Audit performance against the period of the audit plan year covering April to October 2017.

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 2017/18 Internal Audit Plan was submitted to the Audit Committee for consideration and approval on the 27th April 2017. The Plan outlined the assignments to be carried out and their respective priorities.

3.2. The Plan provided for a total of 1,085 productive days to cover the period April 2017 to March 2018.

4. Current situation / proposal

4.1. The following table shows an analysis of productive days achieved against the plan for the seven months of this financial year. The Head of Audit's Opinion Report and a more detailed analysis as extracted from the Internal Audit Shared Service management information system is shown at **Appendices A and B**.

Directorates	2017/18 Full Year Plan Days	Proportion of Plan Days Available for April to October 2017		2017-18 April to October Actual Days delivered
		Max.	Minimum	
CEX - Finance	130	76	76	38
Operational & Partnership Services	110	64	64	57
Education & Family Support	160	93	73	50
Communities	130	76	76	19

Social Services & Wellbeing	170	99	99	64
Cross Cutting including: External; Contingency unplanned and Fraud & Error	385	225	193	85
TOTAL PRODUCTIVE DAYS	1,085	633	581	313

4.2. The figures show that 313 actual days have been achieved, which is significant less than that expected.

4.3. At present the overall structure of the Section is 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 subsequently increased to 9.5 FTE vacant posts. The re-structure is now complete and as a consequence the number of posts has reduced from 18 to 14 FTE's. This has therefore reduced the number of vacancies from 9.5 to 6.5.

4.4. At the end of the period, 14 reviews / jobs have been completed and closed, 11 of which have provided management with an overall substantial / reasonable audit opinion on the internal control environment for the systems examined. 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.

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 2017 to ensure that all aspects of their core functions are being adequately reported.

Helen Smith
Chief Internal Auditor
16th November 2017

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Background Documents

None

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**Bridgend and Vale Internal Audit Service: Head of Internal Audit's Outturn Report April 2017 to October 2017
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 period of the year covering April to October 2017 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 2016-17 an External Assessment was undertaken to review our compliance with the Public Sector Internal Audit Standards. The External Assessor concluded that; overall the assessment identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit

activity. Indeed, the Assessor further stated that all auditees and statutory officers were positive in their responses and understanding of the audit process and the value it added.

It is important to note that there is a requirement within the PSIAS for an external assessment to be undertaken once every five years. The PSIAS came into effect from 1st April 2013 and therefore as a consequence of the external assessment undertaken during 2016/17, the Internal Audit Shared Service has met this requirement.

Internal Audit Coverage – April 2017 to August 2017

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 2017/18 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 27th April 2017. The plan provides for the delivery of 1,085 productive days for the year, with a commitment of a minimum of 995 productive days. Table 1 below provides the outturn for the service for the period April to October 2017 and further detail is provided in Appendix B. The current structure for the Shared Service has recently been reviewed and staff numbers have reduced from 18 Full Time Equivalent employees (FTE's), to 14. This came into effect from 1st October 2017. 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 7.5 vacant FTE posts; this subsequently increased to 9.5 FTE and as a result of the re-structure the service is now carrying

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6.5 vacancies. This lack of adequate resourcing has had an impact on the number of days delivered for the seven months of this year as indicated below.

Table 1 – Productive outturn for the period April 2017 to October 2017

Directorate	2017/18 Full Year Plan Days	2017/18 Expected days for the period April to October 17		2017/18 Actual Days achieved for the period April to October 17
		Max.	Minimum	
Chief Executive / Resources	130	76	76	38
Operational Services and Partnerships	110	64	64	57
Education and Family Support	160	93	73	50
Communities	130	76	76	19
Social Services and Wellbeing	170	99	99	64
Cross Cutting – (Including External Client, Unplanned and Fraud and Error)	385	225	193	85
Total	1,085	633	581	313

As can be seen from the table above, the actual outturn for the period shows that the number of productive days expected has not been achieved. The shortfall of 268 productive days on the minimum expected is as a direct result of staff vacancies and long term absences. The matching process for the re-structure of the Service has been completed and the new structure has now been implemented. The lack of resources within the Service is of specific concern; however work is underway to address the shortfall.

A total of 14 reviews have been completed, 11 (79%) of which have been closed with either a substantial or reasonable assurance opinion level. 2 reviews (14%) have identified weaknesses in the overall control environmental. The remaining 1 review (7%), although necessary, it did not culminate in an overall audit opinion.

Internal Control Weaknesses

Section 117 – Section 117 of the Mental Health Act 1983 imposes an enforceable joint duty on the relevant health and social services authorities to provide or to arrange to provide after-care services for certain categories of mentally disordered patients who have ceased to be detained and leave hospital (or prison, having spent part of their sentence detained in hospital).

After-care services would normally include social work, support in helping the ex-patient with problems of employment, accommodation, family relationships, domiciliary services, day centre/residential facilities.

There are no powers to charge for services provided under section 117, regardless of whether they are provided by health or social services. However, a person in receipt of after-care services may also have ongoing care/support needs that are not related to their mental disorder and that may, therefore not fall within the scope of section 117.

The scope of the audit was to review the following areas:

- Funding arrangements;
- Internal Processes and Procedures;
- Evidence Testing.

During the Audit a number of strengths and areas of good practice were identified as follows:

- 96% of service users had been allocated a care co-ordinator and where no care co-ordinator was allocated a valid explanation was provided.
- High value service user packages are subject to scrutiny under the 'right sizing' exercise by the Council's transformation team.
- The use of the recently implemented Welsh Community Care Information System (WCCIS) is already displaying benefits e.g. Social Workers can input service users' information electronically which has removed the need for the completion of a paper 'basic details form.'

The following key issues were identified during the Audit which need to be addressed:

- An out of date financial contribution arrangement with the Health Board;
- No documented internal procedures or working instructions setting out the processes to be followed for the numerous teams involved in the administration of S117 aftercare.
- An authorised signatory listing has not been finalised which means that Finance potentially process payments to Service Providers without appropriate approval.

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There are no other significant cross cutting internal control weaknesses identified so far this year which would impact on the Council’s Annual Governance Statement. It should be noted that the other review where weaknesses have been identified was as a result of a specific investigation.

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	Satisfactory	Moderate	Minimal	Minimal
2	Reasonable	Moderate	Moderate	Minimal
3	Limited – Significant Improvements required	Of Concern	Moderate	Moderate
4	No Assurance – Fundamental weaknesses identified.	Significant	Of Concern	Moderate

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 **satisfactory**, resulting in a “**moderate**” level of risk.

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Audit Recommendations – 2017/2018

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 seven month period, Internal Audit has made a total of **12** 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

2017 – 18 Recommendation Priority	No. Made	No. Agreed	No. Implemented	No. not yet due to be actioned	No. overdue action date
			Complete	Pending	Outstanding
Fundamental (Priority One) – Immediate Action	0	0			
Significant (Priority Two) – Action within 6 – 12 months	12	12	12	0	0
Total	12	12	12	0	0

Table 4. Analysis of Overdue Recommendations

Analysis of Overdue Implementation of Recommendations for 2017-18	No. Overdue	One / Two months overdue Target date	Three or more months overdue target date
		Amber	Red
Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	0	0	0
Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	0	0	0
Total	0	0	0

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 27th April 2017, which is based on the provision of a maximum of 1,085 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 1st April 2017 the staffing structure is listed in table 3 below, however this has subsequently changed as a result of the re-structure which came into effect from 1st October 2017.

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Table 3 Staffing Structure

2017-18 Staffing Structure As at 1st April 2017	FTE		New Staffing Structure effective from 1st October 2017	FTE
Operational Manager Audit - Head of Audit	1		Operational Manager Audit – Head of Audit	1
Principal Auditor (1 vacant post at present)	2		Client Audit Manager (1 vacant post)	2
Group Auditor	2		Senior Auditor (3 vacant posts)	5
Group Auditor (Information Systems – vacant at present)	1		Auditor (1/2 vacant post)	4
Auditor (5.5 posts are vacant at present)	9.5		Audit Assistant (2 vacant posts)	2
Trainee Auditor (vacant at present)	1			
Trainee Auditor (Information Systems) (vacant at present)	1			
Administrative Assistant	0.5			
Total	18		Total	14

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 4 below demonstrates the experience and qualification mix for the Internal Audit Shared Service.

Table 4 - Qualifications / Experience

Post	Qualification Expectation	No of FTE's	No qualified	No of Employees with No of audit years' experience			
				1 – 2 years	3 – 5 years	6 -10 years	Over 10 years
Operational Manager Audit – Head of Audit	CCAB qualified and relevant experience.	1	1				1
Audit Client Manager (one vacant post)	CCAB qualified or equivalent.	2	1				1

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Senior Auditors (three vacant posts)	Level 6 educational qualification e.g. Part Qualified Audit or Accountancy professional qualification e.g. PIIA, CIA or CCAB.	5	1				2
Auditors (½ vacant post)	Level 4 education qualification e.g. Qualified Accounting Technician (AAT) or equivalent.	4	2		1	2	1
Audit Assistant (2 vacant posts)	Level 3 educational qualification e.g. A Levels, BTEC National Award or part qualified AAT.	2					

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 /Board (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

The Section participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2016/17 have recently been received and are as follows:

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Table 5

Performance Indicator 2016/2017	IASS Performance for BCBC 2016/17	Overall WCAG Average Performance 2016/17	IASS Performance For the BCBC 2015/16	Overall WCAG Average Performance 2015/16
Percentage of Planned Audits Completed	91	84%	98%	84%
Number of Audits Completed	75	90	102	95
Percentage of Audits Completed in Planned Time	63	63%	87%	70%
Percentage of directly chargeable time, actual versus planned	97.8	92%	99%	92%
Average number of days from audit closing meeting to issue of draft report.	9.5	8 days	9.5 days	6.8 days
% of staff leaving during the Financial Year	30.6*	10%	3%	9%

*combined figure for the shared service

Audit Client Satisfaction Questionnaires

At the completion of each audit, all recipients of reports are asked to comment on their satisfaction with the audit process, by way of a survey questionnaire ranging from a score of 1 for very satisfied to a score of 5 very unsatisfied. The results for the period April to October 2017 are summarised in Table 6 below.

Table 6.

No.	Question	Average Score of Responses to October 2017	Average Score of Responses March 2016	Average Score of Responses March 2015	Average Score of Responses March 2014
1	Where appropriate, briefing of client and usefulness of initial discussion.	2.330	1.290	1.360	1.420
2	Appropriateness of scope and objectives of the audit.	2.330	1.560	1.450	1.450
3	Timelines of audit.	3.500	1.560	1.690	1.490

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4	Response of Officer to any requests for advice and assistance.	1.000	1.330	1.240	1.300
5	General helpfulness and conduct of Auditor (s)	1.000	1.190	1.170	1.150
6	Discussion of findings / recommendations during or at the conclusion of the audit.	1.000	1.000	1.000	1.000
7	Fairness and accuracy of report.	1.330	1.420	1.360	1.600
8	Practicality and usefulness of recommendations	1.330	1.580	1.460	1.570
9	Standard of report.	1.000	1.420	1.290	1.380
10	Client agreement with overall audit opinion.	1.330	1.350	1.310	1.560

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 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 October 2017; no significant cross cutting control issues have been identified (other than that reported in the body of this report) that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific. The recommendations made to improve the overall control environment have been accepted and are being / will be implemented.

Of significant issue for the Internal Audit Shared Service is the current lack of resource and this is having an impact on the 2017/18 Audit Risk Based Plan. Prior to October 2017 the Section was carrying over 53% of its resource in vacant posts; this is obviously unsustainable and without doubt will make this a very difficult year for the service. The current structure of the Shared Service has recently been reviewed and although the staff numbers have been reduced from 18 FTE's to 14, the number of senior posts has been increased. The purpose of this is to ensure a more resilient service moving forward which will not only meet the requirements of the Public Sector Internal Audit Standards (PSIAS) but also the changing environment in which we operate.

In addition, Internal Audit is very mindful of the fact that in a Council of this size and complexity, with its significant savings requirements, there is an inherent risk of breakdown in the systems of control particularly where roles, responsibilities and systems are changing. 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>Cod</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>
ASSURANCE							
	Directorate	CHIEF EXECUTIVE - RESOURCES					
B	699 BCBC - C/F Main Acct & Bud Control		3.68	4.00	03/04/2017	05/07/2017	Substantial
	705 BCBC - Advice & Guidance CX & Resources		1.08	5.00	03/04/2017		
	718 BCBC - Income Generation		19.09	20.00	23/05/2017		
Total	Directorate	CHIEF EXECUTIVE - RESOURCES	23.85	29.00			
	Directorate	OPERATIONAL SERVICES & PARTNERSHIPS					
B	698 BCBC - C/F Payroll		5.07	5.00	03/04/2017	16/06/2017	Reasonable
	706 BCBC - Advice & Guidance OpSvs & P/ship		0.71	5.00	03/04/2017		
	710 BCBC - IT Systems & Security Review		9.93	10.00	24/04/2017	06/07/2017	Reasonable
	716 BCBC - Payroll Grievances		20.54	15.00	03/04/2017		
	734 BCBC - Supporting People Grant 16-17		8.78	10.00	30/08/2017		
Total	Directorate	OPERATIONAL SERVICES & PARTNERSHIPS	45.03	45.00			
	Directorate	EDUCATION AND FAMILY SUPPORT					
B	700 BCBC - C/F WB Allegation Education		3.61	5.00	03/04/2017	07/07/2017	Limited
	707 BCBC - Advice & Guidance Ed & Family Sup		0.81	5.00	03/04/2017		
	711 BCBC - Ed Minor Wks - Built Env		9.80	10.00	03/04/2017	05/07/2017	Substantial
	714 BCBC - CRSA & Assurance Schools 1617		4.22	3.00	03/04/2017	31/05/2017	Reasonable
	715 BCBC - Engagement of Consultants		13.65	10.00	03/04/2017		
	726 BCBC - Youth Work Strategy Support Grant		1.76	3.00	20/06/2017	07/07/2017	Reasonable
	727 BCBC - School Summary Report		4.93	5.00	20/06/2017		
	733 BCBC - Education Imp. Grant		4.97	5.00	17/07/2017	17/08/2017	Reasonable
	736 BCBC - School Uniform Grant		5.00	5.00	07/09/2017		
	737 BCBC - School CRSA & Assurance 1718		0.81	5.00	18/09/2017		
Total	Directorate	EDUCATION AND FAMILY SUPPORT	49.56	56.00			
	Directorate	COMMUNITIES					
B	719 BCBC - Fleet		4.59	20.00	03/04/2017		
	729 BCBC - Highways Inspections & Complaints		13.82	20.00	03/07/2017		
	739 BCBC - SWTRA Grant Verification		0.14	10.00	18/10/2017		
Total	Directorate	COMMUNITIES	18.55	50.00			
	Directorate	SOCIAL SERVICES AND WELLBEING					
B	697 BCBC - C/F Data Sharing Soc Svs		9.36	9.00	03/04/2017	06/06/2017	Reasonable
	708 BCBC - Advice & Guidance SS & Wellbeing		0.34	5.00	03/04/2017		

		713 BCBC - Section 117	23.07	25.00	17/04/2017	23/10/2017	Limited
		717 BCBC - Bus Svs Support Grant	4.90	5.00	18/05/2017	21/06/2017	Reasonable
Total	Directorate	SOCIAL SERVICES AND WELLBEING	37.67	44.00			
	Directorate	BCBC CROSS CUTTING					
B		701 BCBC - C/F Safeguarding	0.07	1.00	03/04/2017	15/05/2017	Reasonable
		703 BCBC - Finalising 2016-17 Jobs	11.49	20.00	03/04/2017	17/07/2017	N/A
		704 BCBC - Audit Planning	17.50	30.00	03/04/2017		
		709 BCBC - Audit Committee / CMB	17.50	30.00	03/04/2017		
		724 BCBC - Grant Verification Communities	1.96	2.00	05/06/2017	09/06/2017	Reasonable
		725 BCBC - Final Accounts	1.86	3.00	19/06/2017		
Total	Directorate	BCBC CROSS CUTTING	50.37	86.00			
	Directorate	SOCIAL SERVICES					
B		731 BCBC - Foster Care Payments	14.97	15.00	18/07/2017		
Total	Directorate	SOCIAL SERVICES	14.97	15.00			
Total	Function	ASSURANCE	240.00	325.00			
ANTI-FRAUD & CORRUPTION							
	Directorate	CHIEF EXECUTIVE - RESOURCES					
B		735 BCBC - PTA accounting issues	14.19	5.00	04/09/2017		
Total	Directorate	CHIEF EXECUTIVE - RESOURCES	14.19	5.00			
	Directorate	BCBC CROSS CUTTING					
B		721 BCBC - NFI	1.08	15.00	03/04/2017		
		723 BCBC - Counter Fraud Framework	10.81	15.00	05/06/2017		
Total	Directorate	BCBC CROSS CUTTING	11.89	30.00			
Total	Function	ANTI-FRAUD & CORRUPTION	26.08	35.00			
GOVERNANCE							
	Directorate	OPERATIONAL SERVICES & PARTNERSHIPS					
B		728 BCBC - New Member Support	12.16	10.00	03/07/2017		
Total	Directorate	OPERATIONAL SERVICES & PARTNERSHIPS	12.16	10.00			
	Directorate	SOCIAL SERVICES AND WELLBEING					
B		730 BCBC - Leisure Contract	11.01	10.00	03/07/2017		
Total	Directorate	SOCIAL SERVICES AND WELLBEING	11.01	10.00			

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	Directorate	BCBC CROSS CUTTING			
B	720 BCBC - IASS Monitoring		2.43	10.00	03/04/2017
	722 BCBC - COCG - AGS working group		0.81	5.00	03/04/2017
Total	Directorate	BCBC CROSS CUTTING	3.24	15.00	
Total	Function	GOVERNANCE	26.42	35.00	
RISK & PERFORMANCE MANAGEMENT					
	Directorate	SOCIAL SERVICES AND WELLBEING			
B	732 BCBC - SS and Wellbeing Act Overview		0.27	10.00	18/07/2017
Total	Directorate	SOCIAL SERVICES AND WELLBEING	0.27	10.00	
	Directorate	BCBC CROSS CUTTING			
B	712 BCBC - Insurance		19.83	15.00	26/04/2017
Total	Directorate	BCBC CROSS CUTTING	19.83	15.00	
Total	Function	RISK & PERFORMANCE MAN	20.10	25.00	
		Grand	312.60		

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

16 NOVEMBER 2017

REPORT OF THE CHIEF INTERNAL AUDITOR

UPDATED FORWARD WORK PROGRAMME 2017-18

1. Purpose of Report.

- 1.1 To present to Members the updated Forward Work Programme for 2017/18 for consideration.

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 is given by the Committee to all aspects of their core functions the updated Forward Work Programme for 2017/18 is at **Appendix A**.

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 consider and note the updated Forward Work Programme 2017-18.

Helen Smith
Chief Internal Auditor
16th November 2017

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Chief Internal Auditor

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Bridgend and Vale Internal Audit Shared Service
Unit 2 A, Innovation Centre,
Bridgend Science Park,
Bridgend
CF31 3NA

Background documents

None

**AUDIT COMMITTEE
SCHEDULE OF MEETINGS AND FORWARD WORK PROGRAMME
2017 - 2018**

PROVISIONAL DATE OF MEETING	FORWARD WORK PROGRAMME	OFFICER RESPONSIBLE	UPDATE
2017			
29th June	Information and Action Requests (if applicable).	Chief Internal Auditor (CIA)	N/A
	Proposed Forward Work Programme 2017/18.	CIA	Complete
	Pre-audited Statement of Accounts 2016/17.	Head of Finance	Complete
	Draft Annual Governance Statement 2016-17	Head of Finance	Complete
	Treasury Management Outturn 2016/17	Head of Finance	Complete
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	Complete
	IASS Outturn Report April and May 2017.	CIA	Complete
	IASS Charter 2017-18	CIA	Complete
	IASS - External Assessment	CIA	Complete
	IASS Risk Based Plan 2017-18	CIA	Complete
28th September	Information and Action Requests	CIA	N/A
	Updated Forward Work Programme	CIA	Complete
	Statement of Audited Accounts and Final Annual Governance Statement 2016/17	Head of Finance / WAO	Complete
	Internal Audit 5 months Outturn Report April to August 2017.	CIA	Complete
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	Complete
16th November	Up dated Forward Work Programme	CIA	Submitted
	Information and Action Requests (where applicable)	CIA	N/A
	Fraud update	Head of Finance / Benefits Manager	Submitted
	Corporate Risk update - Communities Directorate	Head of Finance / Risk & Insurance Manager	Submitted
	Treasury Management Half Year monitoring report 2017-18	Head of Finance	Submitted
	Internal Audit Outturn Report – April 2017 to October 2017.	CIA	Submitted
	External Assessment update	CIA	Submitted
	IASS staff resourcing update	CIA	Submitted
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	
2018			
18th January	Up dated Forward Work Programme	CIA	
	Information and Action Requests (if applicable)	CIA	
	Internal Audit 9 months Outturn Report April 2017 – December 2017	CIA	
	External Auditors / Inspection Reports (where applicable)	Head of Finance / WAO	
	Corporate Risk Assessment 2017-18	Head of Finance	

APPENDIX B

	Treasury Management Half Year Report 2017-18 and Treasury management strategy 2018-19	Head of Finance	
26th April	Information and Action Requests (where applicable)	CIA	
	Updated Forward Work Programme	CIA	
	Proposed Forward Work Programme 2018-19.	CIA	
	Internal Audit proposed Annual Strategy and Audit Plan 2018-2019.	CIA	
	Governance – Compliance with Public Sector Internal Audit Standards for 2017-18	CIA	
	Audit Committee – Terms of Reference	CIA	
	Internal Audit Shared Service Charter	CIA	
	Head of Audit’s Annual Opinion Report and outturn for the Year 2017/18	CIA	
	External Auditors / Inspection Reports (if applicable): -	Head of Finance / WAO	