

AUDIT COMMITTEE - THURSDAY, 26 APRIL 2018

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3 - CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 26 APRIL 2018 AT 14:00

Present

Councillor LM Walters – Chairperson

CA Green
A Williams

JR McCarthy
AJ Williams

MJ Kearn
MC Clarke

RMI Shaw
A Hussain

Apologies for Absence

JE Lewis, B Sedgebeer and RM Granville

Officers:

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| Mark Jones | Financial Audit Manager, Wales Audit Office |
| Helen Smith | Chief Internal Auditor |
| Mary Williams | Chief Accountant |
| Mark Galvin | Senior Democratic Services Officer - Committees |
| Gill Lewis | Interim Head of Finance and Section 151 Officer |
| John Llewellyn | Financial Audit Team Leader, Wales Audit Office |
| Sarah-Jane Byrne | Local Government Manager, Wales Audit Office |

Lay Member:

Josephine Williams

45. DECLARATIONS OF INTEREST

Councillor JR McCarthy declared a personal interest in Agenda item 8, in his capacity as Deputy Mayor of Bridgend County Borough Council.

46. APPROVAL OF MINUTES

RESOLVED: That the Minutes of a meeting of the Audit Committee dated 18 January 2018, be approved as a true and accurate record.

47. EXTERNAL AUDIT ANNUAL AUDIT PLAN 2017-18

The Chief Executive submitted a report, the purpose of which, was to submit the External Auditor's Annual Audit Plan 2017-18, together with a schedule of authorised grant signatories for the Council both for noting.

The key elements of the audit engagement of the Appointed Auditor were outlined in Appendix A of the report.

Mr. John Llewellyn from the Wales Audit Office confirmed that the purpose of Plan was to set out the proposed work, when it was to be undertaken, how much it would cost, and finally who was going to undertake it.

He advised that the Plan also outlined the Performance Audit, the Certification of Grant Claims and Returns, as well as certain other work undertaken.

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Attached at Appendix B to the report, was the schedule of authorised grant signatories for noting purposes.

Mr Llewellyn referred Members to page 15 of the Audit Plan and Exhibit 2, that summarised in table format the key financial audit risks identified at the planning stage of the audit, relating to Housing benefit expenditure, Bank reconciliations, Related party disclosures and the Cardiff Capital Region City Deal. This section of Appendix A also gave the proposed audit responses to these highlighted risks. He added that claims tested in relation to the Housing Benefit Annual Accounts had been positive when compared with a similar testing process that had been carried out last year, that revealed that some claims had been processed erroneously. He added that the City Deal audit was not material to the 2017/18 accounts, though this would be far more relevant to the 2018/19 accounts as projects progressed as part of the initiative.

A Member pointed out that he was keen for an audit to be undertaken by the Internal Shared service, as well as one being carried out by the lead authority of Cardiff City Council and/or the Cardiff City Deal Joint Committee, so as to ensure that accountability was being shown by BCBC as a participating Authority involved in the City Deal scheme.

Sarah-Jane Byrne also from the Wales Audit Office, then took Members through the remainder of the reports attachments.

RESOLVED: That Members noted the content of the External Auditor's Annual Audit Plan 2017-18 attached at Appendix A to the report, and the schedule of authorised grant signatories attached at Appendix B.

48. CERTIFICATION OF GRANTS AND RETURNS 2016-17

Mark Jones and John Llewellyn from the Wales Audit Office jointly presented a report on behalf of the Chief Executive, the purpose of which, was to present the Council's External Auditor's report on the grant work undertaken for the period 2016-17.

By way of background information the Officers confirmed that the Wales Audit Office (WAO) as appointed auditors of the Council, is asked on behalf of the Auditor General for Wales to certify larger grant claims made by the Council. For 2016-17 they audited 14 grant claims and returns, with a total value of £123m (15 grant claims with a total value of £121m in 2015-16).

The report gave a summary of all claims and returns subject to certification in the attached Appendix A, together with the certification fee and outcome of the External Auditor's review.

Paragraph 4.2 of the report summarised the certification results, and the Officers from the WAO gave a resume of these for the benefit of Members. The certification results it was confirmed compared well on all Wales average.

Members were advised that there was only one significant adjustment which was as a result of an incorrect calculation of the Bad Debt Provision for Non-Domestic Rates. It was pointed out however, that this affected the income to Welsh Government, and not any funding due to the Council. The net effect of the other grant adjustments resulted in an increase of £75 to the Council.

Members were then referred to paragraph 4.4 of the report, whereby the External Auditors had made 3 recommendations in respect of the Certification of Grants and Returns for 2016-17.

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RESOLVED: That the Committee noted the content of the External Auditor's Report on the grant work undertaken for 2016-17, attached at Appendix A to the report.

49. HOUSING BENEFIT SUBSIDY RETURN 2016/17

The Interim Head of Finance and Section 151 Officer presented a report, in order to inform the Committee of the checking and training activities that have been undertaken to date, and actions planned for 2018/19 to address the issues identified during the 2016/17 Housing Benefit subsidy audit.

By way of background information, she advised that the above audit had revealed a number of processing issues which had affected the accuracy of the subsidy claim. These were outlined in paragraph 3.1 of the report.

The Interim Head of Finance and Section 151 Officer confirmed that steps to address these issues commenced during the audit and the next sections of the report, from paragraphs 4.2 to 4.17, detailed the problems that had been experienced, and the actions either completed or planned for 2018/19 in order to improve the accuracy of these work processes in future.

These were in relation to the following areas of Housing Benefits:-

- General guidance/training
- Identified rent issues
- Occupational pensions/earned income, and
- Subsidy checking process

A Training Plan for staff devised to concentrate on the specific issues identified was detailed at Appendix 1, whilst Appendix 2 contained the high-level checking plan that will be carried out for the 2017/18 subsidy claim.

The Interim Head of Finance and Section 151 Officer then completed her submission by referring to the report's financial implications.

A Member asked why this level of error had been revealed at the time it had in 2016/17, ie were there capacity issues with staffing levels in the section at the time or any other reason(s) Officers had identified.

The Interim Head of Finance and Section 151 Officer confirmed that there had been a reduction in staffing levels in the Housing Benefit section, as there had been in most other service areas of the County Borough the last few years, and this would have brought about extra pressure for staff. The main problems in Housing Benefits however, related to system misinterpretation errors. However, stringent checking processes had now been put in place so as to ensure that this type of error would be eliminated or at the very least, significantly reduced in the future due to all the various checking plans that either had or were in the process of being put in place. She added that the mistakes outlined in the report, had not resulted from careless errors of a widespread nature.

RESOLVED: That the Committee noted the report.

50. COUNCIL TAX REDUCTION FRAUD INVESTIGATIONS: APRIL 2017 TO MARCH 2018

The Interim Head of Finance and Section 151 Officer submitted a report, which informed Members of the activities that have been undertaken during 1 April 2017 to 31 March

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2018, with regard to Council Tax Reduction (CTR) fraud investigations. In addition, the report also summarised the results achieved during 2017/18, as compared with the position from November 2015 to March 2017 (effectively as a new process, this period covers the first year of CTR only investigations.)

The report gave some background information, particularly with regard to the Single Fraud Investigation Service, and explained that most of the Fraud Investigation team had now been transferred to the Department of Works and Pension (DWP) other than one Fraud Officer who had remained with BCBC.

She then referred to Table 1 in paragraph 4.3 of the report, which illustrated the source of fraud referrals during the relevant periods outlined in this table. 41% of these fraud referrals had been initiated through a claim review exercise. The newly introduced Claim Review System had allowed the Authority to access more information of people potentially abusing claims, than had previously been the case.

The Interim Head of Finance and Section 151 Officer added that almost 33% of the referrals were received via the public, with the majority of these relating to DWP benefits or Housing Benefits. She added that during 2017/18, the Council's Fraud Investigator referred 63 cases to the DWP.

The Table (ie 2) shown in paragraph 4.7 of the report, illustrated a breakdown of the types of allegations that were referred during the period outlined in the table, ie November 2015 – March 2017.

Paragraph 4.9 of the report then confirmed that during 2017/18, 82 cases were closed (as compared to 91 for the above period), and the closure categories were detailed in Table 3 in this part of the report.

The Interim Head of Finance and Section 151 Officer then referred to Table 4 in paragraph 4.11 of the report that provided the CTR and incidental Housing Benefit savings that have been achieved as a result of the fraud investigations concluded during the relevant periods.

Table 5 in paragraph 4.13 of the report showed the penalties and fines issued in the relevant period shown, and in addition to these, the Fraud Investigator had also raised administration-penalties totalling £11,859 (£6,523 in 2016/17), following DWP investigations into Housing and Council Tax Benefit claims.

RESOLVED: That Committee noted the report.

51. INTERNAL AUDIT - FINAL OUTTURN REPORT - APRIL 17 TO MARCH 18

The Chief Internal Auditor introduced a report, that presented the Committee with the Council's Internal Audit Strategy and Annual Risk Based Audit Plan for the year April 2018 to March 2019.

Attached at Appendix A to the report, was the draft Internal Audit Strategy document for 2018/19. This demonstrated how the Internal Audit Service will be delivered and developed, in accordance with the relevant Terms of Reference and how it links to the Council's objectives and priorities. The Strategy would be reviewed and updated annually, in consultation with stakeholders, namely the Audit Committee, Corporate Management Board, External Auditors and Senior Management.

The Chief Internal Auditor added that the 2018/19 draft Annual Risk Based Plan of work had been formulated to ensure compliance with the Standards as contained within the

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PSIAS. She further added that in order to keep Members of the Audit Committee fully informed, and to ensure compliance with Standards for Internal Audit, the draft detailed Plan was attached to the report at Appendix B.

The Chief Internal Auditor then referred Members to the audits that had been undertaken between the above period in the different service areas of the Directorates so specified, and then referring back to Appendix A, she pointed out those audits that had identified some significant Internal Control Weaknesses, such as in the Mayoral Review where following a review a number of weaknesses were identified, so much so, that no assurance could be provided on the overall internal control environment. This had resulted in work with the Charity Committee being ceased until such time a meeting was set-up between the Committee and the Council's Chief Executive on the way forward. The Chief Internal Auditor further added, that the main concern was the Charity Committees governance arrangements which were extremely weak.

The second such audit that had given only a limited assurance was in place in respect of the SWTRA Grant Verification, and the Chief Internal Auditor referred to page 89 of the report, where three key issues had been highlighted to be addressed, and she expanded upon these for the benefit of Members.

The Chief Internal Auditor then referred to the School Agency audit undertaken in April 2016 and followed up in June 2017, both of which had resulted in the issue of Limited Assurance reports. As there was a potential risks arising from the outcome of these audits, a review had been undertaken, to ensure that the recommendations agreed by management had been implemented in an attempt to reduce these risks. These were outlined in this section of the report.

She proceeded by confirming that the current follow-up review confirmed that a number of recommendations remained outstanding, with the following areas of concern being identified:-

- Low use of the approved provider, New Directions
- No monitoring of spend/usage at a central level
- No assurance of compliance with Contract Procedure Rules relating to procurement
- No assurance of required checks being carried out by the agencies

The Head of Education and Family Support and the Group Manager School Improvement were then invited into the meeting to give an explanation on what action was being taken so as to address the above areas of concern.

The Head of Education and Family Support advised that though there was a Framework Agreement in place recommending that the approved provider New Directions be used by schools for recruitment of staff etc, the company was not being utilised by all schools, and furthermore, there was no ability to require schools to use the company for this purpose, so they often pursued this through other methods.

This was resulting in problems, for example in the monitoring of spend of secondary schools for advertising in the recruitment of teaching and agency staff.

There was also a problem by not using this approved provider she added, in that there was less control over health and safety checks of potential new staff if any school recruited through a different provider.

The reason schools were giving for not using New Directions, was that this provider could not always provide staff within certain specialist areas. A proforma had therefore

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been issued to all schools, asking for them to give detailed reasons for not using this approved organisation for recruitment purposes.

It was directed in the Headteachers handbook and Induction Programme, that New Directions should be used, and they were being challenged to follow this directive.

The Chairperson asked what percentage of agency staff were being provided by this preferred supplier, adding her concerns that nothing had been put in place to address the concerns raised as part of the first audit carried out in April 2016.

The Head of Education and Family Support advised that there was an issue that was proving problematic, namely that New Directions should be used by all 22 local authorities under an agreed procurement arrangement. A considerable number of schools however, were not conforming to this arrangement.

She added that only around 10% of all school staff employed were being recruited through this agreed provider, with schools choosing to use a better local provider or recruiting through 'word of mouth' methods.

The Chairperson reiterated that if the situation didn't change in the future, then this would inevitably result in the issue of further Limited Assurance reports in the future, which seemed a bit nonsensical.

A Member asked if there was any significant benefits as a result of schools using this provider.

The Head of Education and Family Support confirmed that the main benefit was that New Directions as a matter of course, carried out all the required security checks on potential employers, whereas this could not be guaranteed to be undertaken by other smaller recruitment agencies. Schools who used this agency were 100% indemnified she added. She further added that there was no financial disadvantage however, if schools used a different provider to New Directions for recruitment purposes.

A Member was aware that New Directions was also based in Cardiff, and therefore schools often wished to use more local providers for recruitment of staff.

The Head of Finance and Section 151 Officer stated that it was difficult in changing to different providers to New Directions, due to the fact that the agency had been secured by way of a National Procurement Agreement, where all 22 local authorities had been contracted to use the agency to secure efficiencies and potential savings. She felt that it may be that there is a need to review the terms of the Contract currently in place.

The Chief Internal Auditor then outlined some of the key points of the Bridgend and Vale Internal Audit Service: Head of Internal Audit's Outturn and Annual Opinion Report – April 2017 to March 2018 (Appendix A to the report).

She added that processing all the work planned was becoming increasingly difficult to achieve, given the ongoing problems that had been experienced for some considerable time in the Internal Audit Section with the recruitment and subsequent retention of staff, with the former being particularly difficult to achieve. In effect therefore, the Section was functioning with a significant reduced staffing compliment which was showing little sign of improving.

If the latest recruitment exercise for staff proved unsuccessful, she would look for continued support to be given to Bridgend from the joint partnership in the Vale of Glamorgan CBC.

RESOLVED: That Members considered the Internal Audit Final Outturn Report covering the year ending March 2018, including the Head of Audit's Annual Opinion, in order to ensure that all aspects of their core functions are adequately being reported.

52. INTERNAL AUDIT SHARED SERVICE CHARTER 2018/19

The Chief Internal Auditor submitted a report, which presented to Members the Council's Internal Audit Shared Service Charter for 2018/19.

She advised Members that as at 1 April 2013, the Public Sector Internal Audit Standards (PSIAS) came into force and superseded the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Auditors.

One of the key roles which demonstrated the Audit Committee's oversight is the approval of the Internal Audit Charter, which Members approved for the period 2013/14 at its meeting on 21 March 2013.

She proceeded by advising that the PSIAS required the Head of Audit to review the Charter periodically, though final approval resided with the Audit Committee. The Internal Audit Shared Service Charter for 2018/19 was attached to the report at Appendix A. It had been reviewed to ensure it continues to reflect the requirements of the PSIAS.

Referring to updated Charter, the Chief Internal Auditor advised that the changes were on pages 107 (with the addition of the last penultimate paragraph and bullet points); page 108 where the former Organisational Objectives were now Council Objectives, page 109 where paragraphs 1.10 through to 1.17 inclusive had been added. Finally, there had also been a change in respect of paragraph 3.6 on page 115, where it now stated that the Head of Internal Audit must hold a professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to professional values and the Code of Ethics, etc.

RESOLVED: That Members considered and approved the Internal Audit Shared Service Charter for 2018/19 as attached to the report at Appendix A.

53. INTERNAL AUDIT STRATEGY AND ANNUAL RISK BASED AUDIT PLAN 2018/19 APRIL 2018 TO MARCH 2019

The Chief Internal Auditor outlined a report to Committee, that presented the Council's Internal Audit Strategy and Annual Risk Based Audit Plan for the year April 2018 to March 2019.

She explained that resource requirements were reviewed each year as part of the audit planning process and are discussed with the Internal Audit Shared Service Board (IASSB).

She further advised, that following a staff restructure in 2017/18, the current establishment for 2018/19 was based on 14 full time equivalents. However, currently Members should note that the Section was carrying approximately 50% in vacant posts. With this in mind, the Chief Internal Auditor explained that it was important to be prudent when looking to determine the number of productive days that could be realistically achieved for 2018/19.

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The following therefore, were assumptions that had been made for 2018/19:-

1. Quarter 1 and 2 – Status remains the same at 50% capacity;
2. Quarter 3 and 4 – Status will increase to a maximum of 70% capacity

The Chief Internal Auditor added that in order to address the shortfall in resources, it is envisaged that once again the services of the South West Audit Partnership would be commissioned to help assist with taking up any shortfall of work planned but subsequently not undertaken.

Together with other issues such as plans for the extension of the Shared Internal Audit Service, the proposed plan provided for a maximum of 1,000 productive days being delivered during 2018/19

She referred Committee to Appendix A of the report, which contained the draft Internal Audit Strategy document for 2018/19. The Strategy would be reviewed and updated annually in consultation with key stakeholders, she added.

The 2018/19 draft Annual Risk Based Plan of work, had been formulated to ensure compliance with the Standards as contained within the PSIAS. In order to keep Members of the Audit Committee fully informed, and to ensure compliance with Standards for Internal Audit the draft detailed plan was attached at Appendix B to the report.

A Member was of the opinion, that due to the ongoing problems regarding the recruitment of Auditors, future audit work to be undertaken be carried out on a risk based method, ie the higher the level of risk of the service area being audited the more priority should be given to this area being audited.

A Member added also that risk areas of the Authority be regularly monitored in view of the deficiency in staffing levels, coupled with the problem regarding recruitment and/or retention of audit staff.

RESOLVED: (1) That Committee considered and approved the draft Internal Audit Strategy and draft Annual Risk Based Audit Plan for 2018/19.
(2) That Members wished it placed on record their concerns regarding the difficulty in recruiting and/or retaining professionally qualified audit staff.

54. UPDATED FORWARD WORK PROGRAMME 2017/18 AND PROPOSED FORWARD WORK PROGRAMME FOR 2018/19

The Chief Internal Auditor presented a report, which attached at Appendices A and B, the Schedule of Committee Meetings and Forward Work Programmes for 2017/18 (updated) and 2018/19 (proposed), respectively.

RESOLVED: That Committee considered, noted and accepted the updated Forward Work Programmes for the above periods.

55. URGENT ITEMS

None.

The meeting closed at 16:00