

AUDIT COMMITTEE - THURSDAY, 27 APRIL 2017

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COUNCIL CHAMBER,
CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 27 APRIL 2017 AT
10.00 AM**

Present

Councillor CA Green – Chairperson

JR McCarthy
R Williams

JE Lewis
RC Jones

CL Jones

G Davies

Apologies for Absence

M Gregory

Officers:

Janice Jenkins	Benefits and Financial Assessments Manager
Andrew Rees	Senior Democratic Services Officer - Committees
Helen Smith	Chief Internal Auditor
Nigel Smith	Finance Manager
Mary Williams	Chief Accountant

Representing the Wales Audit Office

Steve Barry - Performance Audit Manager
Mark Jones - Financial Audit Manager
John Llewellyn - Financial Audit Team Leader

300. DECLARATIONS OF INTEREST

None.

301. APPROVAL OF MINUTES

RESOLVED: That the minutes of the meeting of the Audit Committee of 26 January 2017 be approved as a true and accurate record.

302. EXTERNAL AUDIT ANNUAL AUDIT PLAN 2016-17

The Financial Audit Manager, Wales Audit Office presented the External Auditor's Annual Audit Plan 2016-17, together with a schedule of authorised grant signatories for the Council for the Committee to note.

The Annual Audit Plan Outline had been prepared by the Council's External Auditor to meet the requirement of the auditing standards and proper audit practices. It sets out the work to be undertaken by the Appointed Auditor at Bridgend CBC under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999 and the Code of Audit Practice.

The Financial Audit Manager informed the Committee that the Financial Audit 2016-17 element of this plan had been prepared by Wales Audit Office, the purpose of which is to set out the proposed work, when it will be undertaken, how much it will cost and who will undertake it. He stated that the Plan also outlined the Performance Audit, the Certification of Grant Claims and Returns and other Audit Work to be undertaken and a schedule of authorised grant signatories.

The Financial Audit Manager reported on the audit approach to be taken which consists of the three phases of Planning; Execution and Concluding and reporting. He set out the risks of material misstatement which he considered to be significant and which require special audit consideration and the work intended to address them in relation to:

- Financial Challenges
- Cardiff Capital Region City Deal
- Financial Audit Risk
- Changes to the Comprehensive Income and Expenditure Statement and new disclosures
- Significant capital projects

The Committee referred to the risk of management override and questioned whether this was a risk unique to this Council or was it common to all Councils generally. The Financial Audit Manager informed the Committee that this was a risk which is common to all Councils and is an auditing requirement and not a risk specifically to this Council.

The Performance Audit Manager informed the Committee that a report on Governance would be presented to the next meeting of the Committee.

The Committee questioned the burden placed on officials in relation to all appropriate officials being available within reasonable notice during the audit. The Financial Audit Manager informed the Committee that the burden would fall on Finance staff in that the Wales Audit Office would need to know the leave commitments of staff as it would need to give reasonable notice of their intention to test a number of transactions. The Performance Audit Manager informed the Committee that the performance audit programme placed more emphasis on local risks. He stated that there is a possibility that the WAO could alleviate the burden on Internal Audit in carrying out audits on their behalf.

RESOLVED: That the content of the External Auditor's Annual Audit Plan 2016-17 and the schedule of authorised grant signatories be noted.

303. **CERTIFICATION OF GRANTS AND RETURNS 2015-16**

The Financial Audit Team Leader, Wales Audit Office presented the Council's External Auditor's report on the grant work undertaken for 2015-16. The Wales Audit Office (WAO) as appointed auditors of the Council had been asked on behalf of the Auditor General for Wales to certify larger grant claims made by the Council. For 2015-16 15 grant claims and returns were audited with a total value of £121.2 million, compared to 23 grant claims with a total value of £142.3 million audited in 2014-15.

The Financial Audit Team Leader informed the Committee that 100% of the grant claims were submitted in accordance with the awarding body's deadline, consistent with 2014-15; 10 certificates were unqualified, but qualifications were necessary for 5 grants, relating to the eligibility of expenditure in relation to the scheme terms and conditions and issues around the apportionment of costs. He stated that adjustments were made to 14 grants and returns as a result of auditor certification work.

The Financial Audit Team Leader reported that there was only one significant adjustment which was a reduction in the Bad Debt Provision of £152,997 for the Non-Domestic Rates Return. 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 £8,789 to the Council.

Overall the Council's External Auditors concluded that Grant Officers should be reminded of the importance of providing adequate working papers and ensuring claim accuracy.

RESOLVED: That the Committee noted the content of the External Auditor's report on the grant work undertaken for 2015-16.

304. COUNCIL TAX REDUCTION FRAUD INVESTIGATIONS: NOVEMBER 2015 TO MARCH 2017

The Benefits and Financial Assessments Manager reported on the activity undertaken from 1 November 2015 to 31 March 2017 with regard to Council Tax Reduction (CTR) fraud investigations. She also summarised the activities undertaken and the results achieved during 2016/17.

She reported that the Government had create a single fraud investigation service (SFIS) with statutory powers to investigate and sanction all benefit and tax credit offences combining the resources across DWP, Her Majesty's Revenue & Customs (HMRC) and local authorities. Investigation staff from all local authorities had now become civil servants within the SFIS and on 1 November 2015, Bridgend's Fraud Manager and 2 investigation staff joined the SFIS, resulting in the transfer of investigation work for Housing and Council Tax Benefit. Prosecutions for these benefits were now dealt with by the Crown Prosecution Service. Cases of fraud in CTR did not form part of the SFIS remit and in order to maintain effective and functioning counter-fraud activities for CTR, the Benefits Service retained a Fraud Investigator primarily to undertake the following:

- Investigate allegations of CTR fraud and single person discount discrepancies
- Risk based intervention activities
- Assist SFIS in the provision of information and/or documentation
- Provide awareness and training for staff in relation to fraud, abuse and financial loss

The Benefits and Financial Assessments Manager reported that during the initial few months following the transfer to SFIS, the remaining Fraud Investigator concentrated on establishing new protocols and processes for the administration of CTR investigations, and developed a contact network with other CTR fraud officers within neighbouring authorities. This network widened across Wales and officers now met quarterly to discuss CTR fraud matters and share best practice. Fraud awareness training sessions remain to be undertaken for Benefit, Homelessness, Council Tax and Customer Service staff and with outside agencies. Fraud awareness also forms part of the induction process for all new benefit staff.

The Benefits and Financial Assessments Manager also reported on a summary of the sources of fraud referrals between November 2015 and 31 March 2017. She stated that CTR investigations were undertaken based on information received as a data match or in the form of a specific allegation regarding the claimant's circumstances and 41% of the fraud referrals were initiated through claim reviews. These are cases where it appeared that the claimant may have not declared a change in their circumstances, where earnings had remained unchanged over a significant period of time. 31% of referrals were received as a result of the DWP's Real Time Information (RTI) initiative, which is an earned income and occupational pension data match with HMRC and indicated undeclared earnings or pensions, as well as highlighting significant variations in the amounts declared. Fewer than 2% of CTR referrals were received via the public; the majority of referrals from the public relate to DWP benefits or Housing Benefits,

which are forwarded to the SFIS to investigate. Fraud referrals were normally forwarded to the SFIS in the following circumstances:

- The referral relates to the entitlement to a DWP benefit such as Income Support, Jobseeker's Allowance or Employment and Support Allowance; or
- The Housing Benefit overpayment is expected to exceed £4,000 (the DWP's threshold for prosecution); or
- It is in the public's interest that a prosecution should result.

The Benefits and Financial Assessments Manager summarised a breakdown of the types of allegations which had been referred during the period 1 November 2015 to 31 March 2017.

The Benefits and Financial Assessments Manager reported that the majority of investigations undertaken relate to earnings and savings; which is as a result of being unable to investigate cases where a DWP benefit may be affected. During the period November 2015 to March 2017, 91 cases were closed and she highlighted the closure categories. The number of fraud proven cases represented 82% of the closed cases, which is attributed to the quality of the initial referral. The Benefits and Financial Assessments Manager informed the Committee that savings of £136,750 had been achieved as a result of fraud investigations concluded during 2016/17.

The Benefits and Financial Assessments Manager reported that once a case had been closed as fraud proven and the CTR adjustment (known as an excess reduction) was calculated, the case was referred to the Head of Finance or Benefits and Financial Assessments Manager to determine whether a sanction is appropriate. The sanctions available to the Council are prosecutions, issuing a financial penalty or a fine and she highlighted the levels that may be imposed. Penalties and fines issued in 2016/17 totalled £20,546 and in addition, the Fraud Investigator had also raised administration-penalties and a compensation fine, totaling £6,523, following DWP investigations into Housing and Council Tax Benefit claims.

The Committee questioned the threshold of £4,000 being exceeded for prosecution for Housing Benefit overpayment. The Benefits and Financial Assessments Manager informed the Committee that the threshold of £4,000 was set by the DWP, which would shortly be increased to £5,000. She stated that prosecutions can be instigated for lower amounts than the DWP threshold and fines could be levied for any value. She indicated that there is the potential for overpayments to mount up very quickly.

The Committee questioned whether savings derived equated to recovery. The Benefits and Financial Assessments Manager stated that the number of people who pay the penalty is quite high as it is an alternative to prosecution. Payments of fines can be made by instalments and attachments of earnings orders can be made. She stated the Department had a good rate of recovery on fines. The excess reduction amounts are recovered via the person's council tax account; again, recovery rates are high.

The Committee requested detail on the process for using the NFI Service for Council Tax prosecutions. The Benefits and Financial Assessments Manager informed the Committee that it was hoped that matches would be a lot better for Council Tax than for Housing Benefit. There had been time delays in using the data matching service with little gain for the work undertaken.

The Committee questioned the outcome of cases where fraud had been proven. The Benefits and Financial Assessments Manager informed the Committee that work was being concluded on some of the cases where fraud had been proven. There were some cases where sanctions were not pursued, for example due to an individual's health. The

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Committee questioned whether a sanction was offered or did the Council proceed immediately to prosecution. The Benefits and Financial Assessments Manager informed the Committee that a fraud officer will prepare a case, which is then reviewed by her or the Head of Finance, each case is considered on its merits before a decision regarding a sanction is made.

RESOLVED: That the Committee noted the content of the Council Tax Reduction Fraud Investigations: November 2015 to March 2017.

305. EXTERNAL ASSESSMENT

The Chief Internal Auditor presented the final report on the External Assessment of the Internal Audit Shared Service which had been conducted by the Chartered Institute of Public Finance and Accountancy. The review commenced on 30 January 2017, concluding with an on-site assessment on 3 February 2017. The assessor had made 18 recommendations and a further 10 suggestions for improvement.

The Chief Internal Auditor reported that an Action Plan which included responses and action dates had been compiled. Whilst the assessment had identified some recommendations and suggestions for improvement, the assessment did not identify areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity.

The Chief Internal Auditor informed the Committee that the Assessor had found that all auditees and statutory officers were positive in their responses and understanding of the audit process and the value it added. She stated that the Committee would receive regular progress reports against the implementation of the recommendations and suggestions for improvement.

The Committee welcomed the report of the external assessor on the internal audit service and congratulated the service on what it had achieved despite difficult circumstances with staffing levels running at a 50% vacancy rate. The Committee stated there was a need to ensure the correct resources are in place for the delivery of the internal audit service.

The Committee considered that the peer officer and Member review of audit take place in the year after next.

RESOLVED: That the Committee considered the report of the External Assessor and approved the actions for improvement as outlined in Appendix 1 of the report.

306. COMPLETED AUDITS

The Chief Internal Auditor presented a report which summarised the findings of the audits recently completed by the Internal Audit Shared Service.

RESOLVED: That the Committee considered the summary of completed audits so as to ensure that all aspects of their core functions are being adequately reported.

307. INTERNAL AUDIT - FINAL OUTTURN REPORT - APRIL 16 TO MARCH 17

The Chief Internal Auditor reported on the actual Internal Audit performance against the two months of the audit plan year covering April 2016 to March 2017. She informed the

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Committee that the Plan provided for a total of 1,053 productive days, with 1,030 actual days delivered.

The Chief Internal Auditor reported that the overall structure of Internal Audit was based on 18 Full Time Equivalent (FTE) employees; however at the end of the 2015-16 financial year, the section carried 4 FTE vacant posts, but this had now increased to 9 FTE vacant posts. A recent recruitment campaign had been unsuccessful in addressing the shortfall and discussions were underway as to the best way to address the shortfall.

The Chief Internal Auditor informed the Committee that the opinion contained within the outturn report related to the system of internal control at the Council and the overall control environment in place. She stated that the system of internal control was designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate / service policies, aims and objectives. The Chief Internal Auditor could only provide reasonable and not absolute assurance of effectiveness. The supporting evidence lists all those assignments which have been commenced / completed for the year and where an assignment has been completed, an audit opinion has been applied.

The Chief Internal Auditor informed the Committee that on the basis on internal audit work undertaken and taking into account all available evidence, it was her opinion that satisfactory assurance can be applied to standards of internal control at the Council. She stated that the most significant risk affecting her ability to giving an opinion is the 50% vacancy rate in internal audit. Discussions on a re-structure which would be based on resilience and career progression had taken place with the trade unions prior to consultation commencing with staff.

The Committee was disconcerted to learn of the vacancy rate of 50% and it wished to consider the review of resources in internal audit at a future meeting as part of setting the Audit Plan.

The Committee also expressed concern at the shortfall of actual days achieved compared to the planned days in the Social Services and Wellbeing Directorate. The Chief Internal Auditor informed the Committee that a contingency had been built into the Internal Audit Plan and additional days had been requested by the Corporate Director Social Services and Wellbeing due to the implementation of the Social Services and Wellbeing Act. She stated that despite the shortfall in the actual days achieved in Social Services and Wellbeing Directorate she had taken assurance from the CSSIW.

RESOLVED: That the Committee considered the Internal Audit Outturn Report, including the Head of Audit's annual opinion to ensure that all aspects of their core functions are being adequately reported and in doing so, expressed its concern at the vacancy rate of 50% and that it wished to consider the review of resources in internal audit at a future meeting as part of setting the Internal Audit Plan.

308. DRAFT INTERNAL AUDIT STRATEGY AND ANNUAL RISK BASED AUDIT PLAN APRIL 2017 TO MARCH 2018

The Chief Internal Auditor presented the Council's draft Internal Audit Strategy and draft Annual Risk Based Audit Plan for the year April 2017 to March 2018.

The Chief Internal Auditor informed the Committee that the proposed draft risk based plan struck a good balance between the risks identified, the internal audit resources available and the assurance work being carried out by other agencies. The Plan provided for 1,070 productive days being delivered during 2017/18 based on the current

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vacancy rate of 50% in the structure in Quarter 1, 75% of the establishment in post in Quarter 2 and a full establishment in post in Quarters 3 and 4. She stated that the delivery of the 1,070 productive days was wholly dependent on the above materialising. Should this not be the case, there is the potential to buy in any shortfall during the year to meet the maximum commitment.

The Chief Internal Auditor reported that the draft Internal Audit Strategy for 2017-18 demonstrates how the Internal Audit Section will be delivered and developed in accordance with the Terms of Reference and how it links to the Council's objectives and priorities. She stated the Strategy will 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 reported that the draft Annual Risk Based Audit Plan 2017-18 has been formulated to ensure compliance with the Standards contained within the Public Sector Internal Audit Standards. Draft detailed plans for each Directorate had been included to ensure compliance with the Standards and to keep the Audit Committee fully informed.

The Committee considered that it needed to exercise caution in approving the Audit Plan and expressed its concern at the lack of staff resources in Internal Audit could have on achieving the targets set in the Audit Plan. The Chief Internal Auditor stated that the seriousness of the situation had been recognised by the Shared Service which was reviewing the position on a weekly basis.

The Committee also expressed concern at the number of additional productive days to be delivered in Social Services and Wellbeing and requested a breakdown of the services it would support under Cross Cutting given the number of days proposed in the Plan. The Chief Internal Auditor stated that she would more detail of the Cross Cutting services to be audited. The Performance Audit Manager informed the Committee that auditing Cross Cutting services is an area where the Wales Audit Office could assist Internal Audit in order to mitigate the risks identified. The Committee considered that the draft Audit Plan needed to change to take account of the support offered to Internal Audit by the Wales Audit Office. The Chief Internal Auditor informed the Committee that the Audit Plan would be brought back to the next meeting of the Committee along with the Internal Audit Shared Service Charter and Forward Work Programme.

RESOLVED: That an amended draft Internal Audit Strategy and draft Annual Risk Based Audit Plan for 2017/18 be brought to the next meeting of the Committee taking account of the concerns raised by the Committee along with the Internal Audit Shared Service Charter and Forward Work Programme.

309. UPDATED FORWARD WORK PROGRAMME 2016 - 17

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

The Chief Internal Auditor expressed her sincere thanks to the members of the Committee for their support during the last term.

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

310. URGENT ITEMS

There were no urgent items.

311. EXCLUSION OF THE PUBLIC

RESOLVED: That under Section 100A (4) of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, the public be excluded from the meeting during consideration of the following items of business as they contain exempt information as defined in Paragraphs 14 and 18 of Part 4 and Paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.

Following the application of the public interest test in consideration of these other items, it was resolved that pursuant to the Act referred to above, to consider them in private, with the public being excluded from the meeting as they would involve the disclosure of exempt information of the nature as stated above.

312. APPROVAL OF EXEMPT MINUTES

RESOLVED: That the exempt minutes of the meeting of the Audit Committee of 26 January 2017 be approved as a true and accurate record.

The meeting closed at 11.30 am