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For all enquiries relating to this agenda please contact Amy Dredge
(Tel: 01443 863100 Email: dredga@caerphilly.gov.uk)

Date: 8th October 2019

Dear Sir/Madam,

A meeting of the **Audit Committee** will be held in the **Sirhowy Room - Penallta House, Tredomen, Ystrad Mynach** on **Tuesday, 15th October, 2019** at **2.00 pm** to consider the matters contained in the following agenda. Councillors and the public wishing to speak on any item can do so by making a request to the Chair. You are also welcome to use Welsh at the meeting, both these requests require a minimum notice period of 3 working days, and a simultaneous translation will be provided if requested.

All Committee meetings are open to the Press and Public, observers and participants are asked to conduct themselves with respect and consideration for others. Please note that failure to do so will result in you being asked to leave the meetings and you may be escorted from the premises.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'CHARRY'.

Christina HARRY
INTERIM CHIEF EXECUTIVE

A G E N D A

Pages

- 1 To receive apologies for absence.
- 2 Declarations of Interest.

Councillors and Officers are reminded of their personal responsibility to declare any personal and/or prejudicial interest(s) in respect of any item of business on this agenda in accordance with the Local Government Act 2000, the Council's Constitution and the Code of Conduct for both Councillors and Officers.

A greener place Man gwyrddach



To approve and sign the following minutes: -

3 Audit Committee held on the 11th June 2019. 1 - 6

To approve and sign the following minutes: -

4 Special Audit Committee held on the 23rd July 2019. 7 - 10

To receive and consider the following reports: -

5 Audit Committee Forward Work Programme. 11 - 12

6 Annual Improvement Report 2018/19. 13 - 50

7 Corporate Risk Register Monitoring (Q1) 2019/20. 51 - 58

8 Proposed Reporting Protocol in Respect of Completed Audit Reviews and Recommendation Tracking. 59 - 62

9 Internal Audit Services Mid Year Progress Report. 63 - 68

10 2016/18 National Fraud Initiative Update. 69 - 74

11 Counter Fraud Arrangements in the Welsh Public Sector - Publication by the Wales Audit Office. 75 - 126

To receive and note the following information items:-

12 Register of Employees' Interests Forms 2018/19. 127 - 134

13 Officers Declarations of Gifts and Hospitality April to June 2019. 135 - 140

14 Certificate of Compliance for the Audit of CCBC 2019-20. 141 - 142

15 Regulation of Investigatory Powers Act 2000. 143 - 146

16 Final Audit of Financial Statements Report for 2018/19. 147 - 170

**If a member of the Audit Committee wishes for any of the above information reports to be brought forward for discussion at the meeting please contact Amy Dredge, 01443 863100, by 10.00 a.m. on Monday 14th October 2019.*

Circulation:

Councillors M.A. Adams, Mrs E.M. Aldworth, J. Bevan, A. Gair, Ms J. Gale, C.P. Mann, D.T. Hardacre, B. Miles, Mrs T. Parry, Mrs M.E. Sargent (Chair), G. Simmonds and J. Simmonds

Lay Member – Mr N.D. Yates (Vice Chair)

Auditors –Ms N. Jenkins (Wales Audit Office), Ms G. Hawkins (Grant Thornton UK LLP) and Mr B. Morris (Grant Thornton UK LLP)

And Appropriate Officers.

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AUDIT COMMITTEE

MINUTES OF THE MEETING HELD AT PENALLTA HOUSE, TREDOMEN, YSTRAD MYNACH ON TUESDAY 11TH JUNE 2019 AT 2.00 PM

PRESENT:

Councillor M.E. Sargent – Chair
N. Yates – Vice Chair

Councillors:

Mrs E. Aldworth, D. Hardacre, Mrs B. Miles, G. Simmonds and J. Simmonds.

Together with:

R. Edmunds (Corporate Director – Education and Corporate Services), S. Harris (Interim Head of Business Improvement Services and Acting S. 151 Officer), R. Harris (Internal Audit Manager), R. Roberts (Performance Manager) and A. Dredge (Committee Services Officer).

G. Jones (Wales Audit Office) and G. Hawkins (Grant Thornton – External Auditor).

1. TO APPOINT A CHAIR AND VICE-CHAIR FOR THE ENSUING YEAR

It was moved and seconded that Councillor M.E. Sargent be appointed as Chair and Mr N. Yates be appointed as Vice-Chair of the Audit Committee for the ensuing year. By a show of hands this was unanimously agreed.

2. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillors M. Adams, J. Bevan, A. Gair, Mrs J. Gale and C.P. Mann.

3. DECLARATIONS OF INTEREST

There were no declarations of interest received at the commencement or during the course of the meeting.

4. MINUTES – 23RD APRIL 2019

RESOLVED that subject to an amendment in relation to agenda item 5 - 2019 Audit Plan - Caerphilly County Borough Council, the second sentence in the penultimate paragraph should read “*A Member referenced the Sustainable Development Principle and it was explained that under the Well-being of Future Generations Act, Councils must act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs*”, the minutes of the Audit Committee held on the 23rd April 2019 (Minute No’s 1 – 13) be approved as a correct record and signed by the Chair.

REPORTS OF OFFICERS

Consideration was given to the following reports.

5. AUDIT COMMITTEE FORWARD WORK PROGRAMME

Members were asked to consider the Draft Forward Work Programme from June to October 2019 and to make any amendments or propose any additional items to be included for future meetings.

The Audit Committee were informed that the Corporate Risk Register (Q4 – 2018/19) scheduled for this meeting had been removed as Officers are currently working on a new performance reporting framework that will consist of details in respect of performance measures, resources, risks and key priorities in respect of each of the Directorates. In future this will be reported on a quarterly basis and the inaugural risk management report will be scheduled for the 15th October 2019 meeting. It was also agreed that the Internal Audit Services – Annual Outturn Report 2018/19 scheduled for the October meeting can be removed as this report had been presented at the last Committee meeting on the 23rd April 2019.

Following consideration and discussion, it was moved and seconded that the Forward Work Programme and agreed amendments be approved. By a show of hands this was unanimously agreed.

RESOLVED that subject to the foregoing, the Forward Work Programme be approved.

6. REGULATOR PROPOSALS FOR IMPROVEMENT PROGRESS UPDATE

The Performance Manager introduced the report which updated members on progress made against proposals/recommendations made by all regulators since the Audit Committee held on the 29th January 2019. Since January 2019 there has been 2 proposals addressed and 9 new ones added onto the register.

The Audit Committee were advised that there are no statutory recommendations to address. There are 12 proposals and 5 Areas for Improvement on the register (totalling 17). Two of the proposals were considered as complete and subject to the agreement of the Audit Committee, this would leave 15 outstanding. Officers had received 3 reports since the last update was provided; A Service User Perspective Review (telephone interview of Housing Tenants), a follow up on WHQS and an Examination of improving the take up of the Flying Start Programme, which is part of the Wales Audit Office (WAO) work on how public bodies are implementing the Well-being of Future Generations Act (Wales) 2015.

The Committee noted that Wales Audit Office (WAO) issue proposals and recommendations to the Council. A proposal is a 'suggestion for improvement' where the Council does not have to act on it, but if it is on the register this must be completed. The Council has a statutory duty to act on recommendations made. The areas for improvement are a new category that looks at how the Council has applied the Sustainable Development Principle in forming actions to deliver the Well-being Objectives. Members were referred to paragraph 5 in the report which details the proposals/areas for improvement that are outstanding as of June 2019.

The Chair thanked the Officer for presenting the detailed report and discussion ensued.

A Member sought clarification regarding the impact of priority 2 in respect of the Overview and Scrutiny – Fit for the Future (referred to in Appendix A). Council agreed on the 16th April 2019 to remove Cabinet Member Statements from Scrutiny Committee agendas and introduce the practice of Cabinet Members introducing reports to Scrutiny and answering questions. The Director referred to the Policy and Resources Scrutiny Committee that he had attended and felt

that the role of Cabinet Members has improved and was impressed with the confidence and in-depth knowledge of the Directorate of the Cabinet Members when delivering their reports.

Following consideration and discussion, it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that the 2 proposals 'recommended as completed' within Appendix A be closed down.

7. DRAFT ANNUAL GOVERNANCE STATEMENT FOR 2018/19

The Interim Head of Business Improvement Services and Acting S. 151 Officer presented the report which provided Members with the opportunity to review the draft Annual Governance Statement (AGS) for 2018/19 and make any changes that they felt are required and justifiable. It was explained that the 2018/19 draft statement appended to the report has been updated since 2017/18 particularly in respect of the areas for improvement. The draft 2018/19 statement has been prepared by the Corporate Governance Review Panel which has assessed work undertaken to address issues raised in the previous year's (2017/18) statement. As a result one area has been carried forward to join two new areas as areas for Improvement for the current Statement.

Members were referred to page 32 within the agenda pack and noted that the review of the Council's governance arrangements operating throughout 2018/19 has highlighted three areas where steps will be taken during 2019/20 to further enhance the sound governance arrangements that are in place. The Committee discussed the steps which include General Data Protection Regulations (GDPR), Directorate Performance Assessments (DPAs) and the Future Caerphilly Transformation Strategy, #Team Caerphilly – Better Together.

The Chair thanked the Officer for presenting the report and discussion ensued.

A Member sought clarification in respect of paragraph 4.1.3. and the 'clearing out of old data' regarding performance management. Officers explained that the Council has used a performance management software system, Ffynnon, to monitor individual performance indicators however the contract for Ffynnon is not being renewed in 2019. This is being used as an opportunity to clear out considerable amounts of old data that is no longer used. Plans are underway to store the data locally using the Council's servers. A Member expressed his concerns regarding legacy issues linked to GDPR and Officers advised that there is still work to do in respect of email records management, network drives and work in respect of privacy notices.

In response to a member comment it was explained that the Corporate Governance Review Panel consists of Officers who have designated roles as specified within the Panel's Terms of Reference and Councillor Barbara Jones (Cabinet Member for Finance, Performance and Governance) as was previously recommended by external audit. Another group called the 'expert group' is made up of officers who have roles that cut across all service areas, such as the Head of People Services, Head of Corporate Finance etc.

A Member queried the review of induction arrangements for Officers that is being undertaken. Officers explained that some progress has been made with developing an I.T. solution; however, this is still in progress and needs review in line with the impact of the GDPR. Meetings of the HR Strategy Group have been infrequent but the People Services Division is looking to reframe and alter the focus of the group to improve effectiveness moving forward. Appropriate training has and will continue to be delivered where identified. The HR Strategy Group consists of 2 Cabinet Members and Leadership representatives from all frontline Services. Members thanked the Officers for the comprehensive report.

Following consideration and discussion, it was moved and seconded that the recommendation in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that the draft Annual Governance Statement (AGS) for 2018/19 be approved.

8. PUBLIC SECTOR INTERNAL AUDIT STANDARDS - ACTION PLAN PROGRESS UPDATE

The Internal Audit Manager presented the report which updated the Committee on the completion of the actions previously agreed at the Audit Committee held on the 10th April 2018. This followed the completion of an internal review and an external peer review in late 2017 in relation to the Public Sector Internal Audit Standards (PSIAS). The Standards came into force on 1st April 2013 and introduced a requirement for internal and external assessments to be undertaken periodically to evaluate compliance with the Definition of Internal Auditing, the Code of Ethics and the Standards.

Members were referred to the updated action plan (appended to the report) that shows the progress made and also includes notes setting out how the remaining actions will be dealt with moving forward. Many of the actions are in some way linked to the development and operation of the recently acquired audit management software solution. A Member sought clarification regarding the review and monitoring process and the duration of the software implementation. Officers advised that the emphasis is on implementing the system correctly. The Team are working exceptionally hard and additional resources in IT have been made available to assist in this process. This will take some time to set up, however once completed and operationally embedded into working practices many of the outstanding issues will be resolved.

Following consideration and discussion, it was moved and seconded that the recommendation in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that the progress made to date in completing the previously agreed actions, be noted.

9. UPDATED CODE OF CORPORATE GOVERNANCE AND TERMS OF REFERENCE FOR THE CORPORATE GOVERNANCE REVIEW PANEL

The Internal Audit Manager presented the report which sought Audit Committee approval of the updated Code of Corporate Governance and the Terms of Reference for the Review Panel. The Panel oversees the annual review of governance arrangements and drafts the Annual Governance Statement (AGS). The documents have been reviewed and updated following the publication of updated guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA/SOLACE) in 2016, prior to consideration by Cabinet on the 2nd October 2019.

The major changes between the two CIPFA/SOLACE publications are that originally there were six fundamental principles of good governance and these have now become seven, and also there is recognition of the impact that the Well-being of Future Generations (Wales) Act 2015 has on future governance structures and processes. Members were referred to Appendix 1 which reflects both changes in the revised local Code. One of the key components of the governance structure as identified within the local Code is the Corporate Governance Review Panel. The Panel plays a pivotal role in the annual governance assessment leading to the production of the Annual Governance Statement (AGS). Reference was made to Section 5 within Appendix 1 that explains that the Council has adopted a system of Directorate Assurance Statements which are completed on an annual basis to coincide with the production of the AGS. These require Directors to review the operation of a wide range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. The completed Directorate Assurance Statements are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues. Any significant non-compliance issues emerging will be included in the Annual Governance Statement itself.

The updated Terms of Reference at Appendix 2 have not changed fundamentally from the previous version with only some updating of post titles and wording improvements being made. A Member suggested that when future updated documents are presented to the Committee that the changes are highlighted within the document for ease of reference and this was agreed by Officers.

Members discussed the membership of the Corporate Governance Review Panel and it was suggested that a Member of the Audit Committee sit on the Panel. Officers confirmed they would email the Committee following the meeting seeking nominations.

Following consideration and discussion, it was moved and seconded that the recommendation in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that the Code of Corporate Governance and the Terms of Reference for the Corporate Governance Review Panel be approved, prior to their consideration by Cabinet on the 2nd October 2019.

10 – 13. INFORMATION ITEMS

The Committee received and noted the following information items:-

- (i) Annual Review of Complaints Received Under the Council's Corporate Complaints Policy – 1st April 2018 - 31st March 2019.
- (ii) Corporate Governance Panel Minutes held on 2nd April 2019.
- (iii) Regulation of Investigatory Powers Act 2000.
- (iv) Officers Declarations of Gifts and Hospitality - January to March 2019.

The meeting closed at 2.50 pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 15th October 2019, they were signed by the Chair.

CHAIR

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SPECIAL AUDIT COMMITTEE

**MINUTES OF THE MEETING HELD AT PENALLTA HOUSE, TREDOMEN, YSTRAD
MYNACH ON TUESDAY 23RD JULY 2019 AT 2.00 PM**

PRESENT:

Councillor M.E. Sargent – Chair
N. Yates – Vice Chair

Councillors:

M. Adams, C.P. Mann, G. Simmonds and J. Simmonds.

Together with:

R. Edmunds (Corporate Director for Education and Corporate Services), S. Harris (Interim Head of Business Improvement Services & Acting S151 Officer), R. Harris (Internal Audit Manager), A. Southcombe (Finance Manager - Corporate Finance) and A. Dredge (Committee Services Officer).

Grant Thornton – G. Hawkins and B. Morris.

1. APOLOGIES

Apologies for absence were received from Councillors Mrs E. Aldworth, J. Bevan, A. Gair, Ms J. Gale, D. Hardacre, Mrs B. Miles and Ms T. Parry.

2. DECLARATIONS OF INTEREST

There were no declarations of interest made at the beginning or during the course of the meeting.

REPORTS OF OFFICERS

Consideration was given to the following reports.

3. LOCAL GOVERNMENT FINANCIAL STATEMENTS AND THE ROLE OF THE EXTERNAL AUDITOR - PRESENTATION

Representatives from Grant Thornton delivered the presentation that set out the role of External Audit and the Audit Committee in relation to the Financial Statements.

The role of the Audit Committee includes scrutinising the Financial Statements and overseeing the internal control and corporate governance arrangements operating within the Council. It was explained that the audit process is monitored through consideration of audit plans, reporting and evaluating the effectiveness of internal and external audit and promoting

effective working between internal and external audit. The Auditor highlighted a number of factors for consideration that included previous assurance reporting from internal and external audit, findings from Inspections and other external reviews, awareness of deficiencies and risks and asking questions.

The Committee noted that the External Auditor is appointed by the Wales Audit Office (WAO) to undertake audits on behalf of the Auditor General for Wales and has undertaken the Financial Statements audit at Caerphilly since 2015. Their role is to provide an audit opinion on the Council's Financial Statements, as to whether they provide a true and fair view of the financial position at year end. They assess if the Financial Statements have been properly prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting and undertake certification of grant claims and returns. They provide a view on the whole of Government Accounts submissions and they also correspond with the public and manage any objections to the Accounts. The Auditors highlighted that a key part of their role is to work with the Audit Committee to ensure its work is timely, effectively planned and to communicate, share and evaluate national reports and governance reviews. They must comply with legislation, the audit code, guidance from WAO and the Financial Reporting Council and ethical standards whilst undertaking their role.

It was explained that the Auditors determine a materiality level when auditing the Financial Statements. This is defined as '*misstatements, including omissions and are considered to be material if they individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements*'. Following this, a determination of what is 'trivial' is also made. Based on this, the Auditors issue a 'true' and 'fair' opinion. The focus of an audit is the assessment of where the risks are in any set of Financial Statements.

In concluding, the Auditors briefed the Committee on their role with the External Auditors and Accounts. The Committee's role is to receive the External Auditor's findings report (ISA260) and formally consider any issues raised prior to the audit opinion being provided and the approval of the publication of the final Accounts. The Auditor's summarised what Members should look for within the accounts and the questions that should be asked when reviewing the accounts.

The Chair thanked B. Morris and G. Hawkins for delivering their presentation and the Audit Committee noted its contents.

4. AUDIT COMMITTEE ASSURANCE OVER MANAGEMENT PROCESSES AND ARRANGEMENTS

The Acting Section 151 Officer presented the report that provided the Audit Committee with the Chair's responses to the External Auditor, Grant Thornton, on how the Committee gains assurance over management processes and arrangements.

It was noted that as part of their audit planning and to comply with International Accounting Standards the External Auditor needs to gain an understanding of how the Audit Committee gains assurance over management processes and arrangements. A list of questions had been sent to the Chair of the Audit Committee and the responses received were appended to the report.

Following consideration and discussion, it was moved and seconded that the recommendation in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that the response appended to this report, be noted.

5. FINANCIAL STATEMENTS FOR 2018/19

The Acting Section 151 Officer, Finance Manager and the representatives from Grant Thornton presented the report which provided the Audit Committee with the 2018/19 Financial Statements and the External Auditor's report on the audit of the Financial Statements (ISA260 Report). The report sought a recommendation from the Audit Committee that Council approves the 2018/19 Financial Accounts at the meeting of Special Council on the 30th July 2019, subject to any further adjustments that may be required from ongoing audit work.

The Committee was advised that the 2018/19 Draft Financial Accounts (Appendix 1) were prepared and submitted to the External Auditor, Grant Thornton, on the 7th June 2019 in accordance with the agreed deadline. The Draft Financial Accounts have since been subject to External Audit review and this work is partially complete with final testing still to be completed in a number of areas. The External Auditor's Audit Report (Appendix 2) reflects the audit work completed to date.

The External Auditors updated the Committee on the audit work that had been undertaken the previous week, since the publication of the agenda pack. Handouts were distributed to Members that replaced pages 4, 5, 9, 18 and 19 within the External Auditor's report (Appendix 2). The amendments were highlighted with tracked changes. The changes related to the status of the audit, the response to the financial audit risks and matters arising from Exhibits 5 and 6. It was explained that there have been added complexities around public sector audits this year which has led to delays, with particular reference being made to pensions where a recent judgement has resulted in late changes being required to the Financial Statements. The Auditors thanked colleagues within the Finance Team for their valued contribution whilst working together during this process.

The Chair thanked Officers and Colleagues from Grant Thornton for their hard work during this process and for delivering the report and Members questions were welcomed.

A Member sought clarification regarding the impact of the McCloud/Sergeant Judgments on the Council's total pension liabilities. The cases related to age discrimination on pension liabilities. The legal ruling around age has implications for pension schemes where transitional arrangements on changing benefits were implemented, and this includes the Local Government Pension Scheme (LGPS). The implications have been discussed with management and more widely with the sector as a whole to ensure consistency. Management obtained updated figures from the Greater Gwent (Torfaen) Pension Fund which has resulted in an increase in the liability and a subsequent adjustment to the Financial Statements. The Committee discussed the Council's pension liability and it was suggested that a colleague from the Greater Gwent (Torfaen) Pension Fund be invited to attend the next meeting scheduled on the 15th October 2019, to provide any further clarification requested by Members.

A Member referred to the level of underspend across service areas and in response the Acting S. 151 Officer advised Members that a more detailed report on the underspend was presented to Cabinet on the 12th June 2019.

Clarification was provided in respect of the 2018/2019 Capital Expenditure set out on page 14 within the agenda pack. It was explained that this expenditure is funded from a range of sources including the Core Capital Programme, Section 106 monies and a range of capital grants. In terms of the WHQS Programme, Officers clarified that there are resources available within existing budgets to fund the Programme.

Following consideration and discussion, it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that for the reasons contained in the Officer's report:-

- (i) the External Auditor's Audit of Financial Statements Report, be noted;
- (ii) the Management responses to the Auditor's recommendations arising from the 2018/19 financial audit work completed to date, be noted;
- (iii) the 2018/19 Financial Accounts be approved subject to any changes that may be required as a result of ongoing audit work and be recommended to Council.

The meeting closed at 3.00pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 15th October 2019, they were signed by the Chair.

CHAIR

Audit Committee - Forward Work Programme 2019

15/10/19 14:00 Annual Improvement Report 2018/19	To present the Annual Improvement Report for 2018/19	Harris, Stephen	Cllr. Jones, Barbara;
15/10/19 00:00 Corporate Risk Register Monitoring (Q2) 2019/20		Harris, Stephen	Cllr. Jones, Barbara;
15/10/19 00:00 Internal Audit Services Mid Year Progress Report		Harris, Stephen R;	Cllr. Jones, Barbara;
15/10/19 00:00 Information Item - Regulation of Investigatory Powers Act 2000	To advise Members of the numbers of covert surveillance operations undertaken within the provisions of the	Lane, Lisa;	Cllr. Jones, Barbara;
15/10/19 00:00 Officers Declarations of Gifts and Hospitality - April to June 2019	To provide the Audit Committee with the information regarding the Register of Employees Interests Forms	Donovan, Lynne;	Cllr. Jones, Barbara;
15/10/19 00:00 Certificate of Compliance for the Audit of Caerphilly County Borough Council 2019-20	To provide the certificate of compliance for the audit of Caerphilly County Borough Council 2019-20	Harris, Stephen R;	Cllr. Jones, Barbara;
15/10/19 00:00 Progress Reporting Protocol	Added 3./9/19	Harris, Richard M;	Cllr. Jones, Barbara;
15/10/19 00:00 National Fraud Initiative	To inform Members of the work carried out by the internal Audit Staff on the 2016/18 National Fraud Initiative.	Harris, Richard; Gronow, Deborah;	Cllr. Jones, Barbara;
15/10/19 00:00 Publication - Counter Fraud Arrangements in the Welsh Public Sector	To provide Members of an overview of the counter-fraud landscape across the Welsh public sector.	Harris, Richard M; Gronow, Deborah;	Cllr. Jones, Barbara;
15/10/19 00:00 Register of Employees' Interests 2018/19	To provide the Audit Committee with Officers declarations of Gifts and Hospitality from April to June 2019	Donovan, Lynne;	Cllr. Jones, Barbara;#210
15/10/19 00:00 Final Audit of Financial Statements Report for 2018/19	To provide the Audit Committee with the WAO Audit of Financial Statements Report 2018-19 issued on the 2nd September 2019.	Harris, Stephen R;	Cllr. Jones, Barbara;#210

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AUDIT COMMITTEE 15TH OCTOBER 2019

SUBJECT: ANNUAL IMPROVEMENT REPORT 2018/19

REPORT BY: CORPORATE DIRECTOR OF EDUCATION & CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 The attached report (Appendix 1) issued at the end of July 2019 outlines the key messages from the Wales Audit Office (WAO) Annual Improvement Report (AIR). The AIR makes a judgement as to whether we have and whether we are likely to comply with our statutory duty in compliance with the Local Government (Wales) Measure 2009 to 'make arrangements to secure continuous improvement'.

2. SUMMARY

- 2.1 This AIR is two-fold. It summarises the work carried out by the WAO during the year 2018/19 and provides the regulators judgement as to whether we will comply with the Local Government (Wales) Measure 2009. For 2018/19 the WAO judgement was:

"The Council is meeting its statutory requirements in relation to continuous improvement and is at a crucial pivotal point in its ambition to transform"

Based on, and limited to, the work carried out by the Wales Audit Office and relevant regulators, the Auditor General believes that the Council is likely to comply with the requirements of the Local Government Measure (2009) during 2019-20"

3. RECOMMENDATIONS

- 3.1 It is recommended that Audit Committee comment on and approve the Annual Improvement Report (AIR) 2018/19 as set out in Appendix 1, prior to its presentation at Cabinet on the 16th October 2019.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To allow Audit Committee to consider the Annual Improvement Report prior to its presentation at Cabinet.

5. THE REPORT

- 5.1 As noted in 2.1 the WAO judgement is that "The Council is meeting its statutory requirements in relation to continuous improvement and is at a crucial pivotal point in its ambition to

transform”

5.2 The report notes in paragraph 7 that “*During the course of the year, the Auditor General did not make any further formal recommendations. However, we have made a number of proposals for improvement and these are repeated in this report. We will monitor progress against them and relevant recommendations made in our national reports (AIR Appendix 3) as part of our improvement assessment work*”.

5.3 Page 6 onwards of the AIR gives a brief summary of the work reported on in 2018/19.

5.4 The AIR notes, at page 15, that the Council complied with its duty for Improvement Planning and Reporting, through our published Well-being Objectives, and our assessment of performance in the Annual Performance Report for the year 2017/18. No proposals for improvement were made. The WAO provided confirmation certificates that these duties were met and these were received by Audit Committee as information items on 24th July 2018 and 29th January 2019.

5.5 Individual reports received are reported to members throughout the year and the AIR is a summary of those individual outputs.

5.6 **Conclusion**

At the end of 2018/19 we can demonstrate that “***The Council is meeting its statutory requirements in relation to continuous improvement and is at a crucial pivotal point in its ambition to transform***”

6. **ASSUMPTIONS**

6.1 There are no assumptions in this report.

7. **LINKS TO RELEVANT COUNCIL POLICIES**

7.1 Corporate Plan 2018-2023.

8. **WELL-BEING OF FUTURE GENERATIONS**

8.1 The Well-being of Future Generations (Wales) Act 2015 is about improving the social, economic, environmental and cultural well-being of Wales. Its aim is to make public bodies listed in the Act to think more about the long term, working better with communities and each other. It is about preventing problems and taking a joined-up approach.

The arrangements we have in place to comply with the Act are reported to a range of audiences and made available on the council’s website.

9. **EQUALITIES IMPLICATIONS**

9.1 An Equalities Impact Assessment screening has been conducted and it has been determined that an assessment is not needed as this report relates to a document published by the WAO.

10. **FINANCIAL IMPLICATIONS**

10.1 There are no financial implications to this report.

11. PERSONNEL IMPLICATIONS

11.1 There are no personnel implications arising from this report.

12. CONSULTATIONS

12.1 This report has been sent to the consultees listed below and all comments received are reflected in this report.

13. STATUTORY POWER

13.1 Local Government (Wales) Measure 2009. Well-being of Future Generations (Wales) Act 2015

Author: Ros Roberts, Corporate Performance Manager, roberr@caerphilly.gov.uk

Consultees: Corporate Management Team
Councillor Barbara Jones – Interim Leader & Cabinet Member for Performance
Steve Harris – Interim Head of Business Improvement Services
Kathryn Peters – Corporate Policy Manager
Deborah Gronow – Audit Group Manager

Background Papers:

Appendices:

Appendix 1 - Annual Improvement Report 2018/19

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Appendix 1

Annual Improvement Report

Caerphilly County Borough Council

Issued: July 2019

Document reference: 1388A2019-20

This Annual Improvement Report has been prepared on behalf of the Auditor General for Wales by Gareth Jones and Non Jenkins under the direction of Huw Rees

Adrian Crompton
Auditor General for Wales
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The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office Board, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the National Assembly.

The Auditor General audits local government bodies in Wales, including unitary authorities, police, probation, fire and rescue authorities, national parks and community councils. He also conducts local government value for money studies and assesses compliance with the requirements of the Local Government (Wales) Measure 2009.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Assembly Commission and National Health Service bodies in Wales.

The Auditor General and staff of the Wales Audit Office aim to provide public-focused and proportionate reporting on the stewardship of public resources and in the process provide insight and promote improvement.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

This document is also available in Welsh.

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Summary report

2018-19 performance audit work

- 1 To decide the range and nature of the work we would undertake during the year, we considered how much we already know from all previous audit and inspection work and from other sources of information including Caerphilly County Borough Council's (the Council) own mechanisms for review and evaluation. For 2018-19, we undertook improvement assessment work; an assurance and risk assessment project and work in relation to the Well-being of Future Generations Act at all councils. At some councils, we supplemented this work with local risk-based audits, identified in the Audit Plan for 2018-19.
- 2 The work carried out since the last Annual Improvement Report (AIR), including that of the relevant regulators, is set out in [Exhibit 2](#).

The Council is meeting its statutory requirements in relation to continuous improvement and is at a crucial pivotal point in its ambition to transform

- 3 Based on, and limited to, the work carried out by the Wales Audit Office and relevant regulators, the Auditor General believes that the Council is likely to comply with the requirements of the Local Government Measure (2009) during 2019-20.
- 4 As stated in our 2015-16, 2016-17 and 2017-18 Annual Improvement Reports, internal investigations are continuing in relation to the issues concerning some senior officers. Consequently, there are still a number of interim or acting posts at senior management level and a degree of uncertainty remains at the Council until the internal investigations are concluded.
- 5 The Council is now at a crucial pivotal point in its ambition to transform, and it has significant opportunities to quickly grasp through its transformation programme, Team Caerphilly, to ground its ambitions and turn them into action and improved outcomes for its citizens by 2022.

Recommendations and proposals for improvement

- 6 Given the wide range of services provided by the Council and the challenges it is facing, it would be unusual if we did not find things that can be improved. The Auditor General is able to:
 - make proposals for improvement – if proposals are made to the Council, we would expect it to do something about them and we will follow up what happens;

- make formal recommendations for improvement – if a formal recommendation is made, the Council must prepare a response to that recommendation within 30 working days;
- conduct a special inspection, publish a report and make recommendations; and
- recommend to ministers of the Welsh Government that they intervene in some way.

7 During the course of the year, the Auditor General did not make any formal recommendations. However, we have made a number of proposals for improvement and these are repeated in this report. We will monitor progress against them and relevant recommendations made in our national reports ([Appendix 3](#)) as part of our improvement assessment work.

Audit, regulatory and inspection work reported during 2018-19

Exhibit 1: audit, regulatory and inspection work reported during 2018-19

Issue date	Brief description	Conclusions	Proposals for improvement
April 2019	<p>Assurance and Risk Assessment Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council:</p> <ul style="list-style-type: none"> • putting in place proper arrangements to secure value for money in the use of resources; • putting in place arrangements to secure continuous improvement; and • acting in accordance with the sustainable development principle in setting wellbeing objectives and taking steps to meet them. 	<p>Arising from this project we identified the following topics for inclusion in our audit plan at the Council for 2019-20:</p> <ul style="list-style-type: none"> • a review of the Council's transformation programme. This project will review the effectiveness and impact of the Council's transformation programme in driving sustainable and efficient improvement. We will discuss the focus and approach to this project with the Council. • a review of the Council's financial sustainability. A project common to all local councils that will assess financial sustainability in light of current and anticipated future challenges. . 	Not applicable

Issue date	Brief description	Conclusions	Proposals for improvement
March 2019	<p>Well-being of Future Generations Act (Wales) 2015 (WFG Act) examination</p> <p>Examination of the extent to which the Council has acted in accordance with the sustainable development principle when taking the step of continuing the delivery of the Flying Start programme to help improve access, take up and attendance to meet the following wellbeing objective:</p> <ul style="list-style-type: none"> Improved education opportunities for all. <p><u>Copy of the Auditor General's report</u></p>	<p>In taking this step and acting in accordance with the Flying Start Programme, the Council has a number of positive examples of how it has taken account of the sustainable development principle, particularly in collaboration and prevention. However, the Council recognises that there is more to do to consistently embed all five ways of working and could strengthen its involvement to secure increased take up and attendance and ensure that it is working in a fully integrated way:</p> <ul style="list-style-type: none"> the Council can identify longer-term benefits for individual families who engage with the Flying Start Programme, but the Council could consider ways to track and evidence longer-term impacts for all families eligible for the programme; prevention is an inherent part of the Flying Start Programme, and the Council has tailored its approach to the local population, but it should consider different ways to maximise the preventative benefits the programme could bring; the Council demonstrates a good understanding of integration and is making progress towards a more integrated approach to delivering its Flying Start Programme; collaboration is an inherent part of the Flying Start programme and the Flying Start team are collaborating well internally and externally; and the Flying Start team has a well-developed approach to using views of parents to inform the design of services and has established a positive working relationship with the local Parent Network. 	<p>We did not make any proposals for improvement in the Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations report but did highlight some areas of development which the Council plans to act on.</p>

Issue date	Brief description	Conclusions	Proposals for improvement
September 2018	<p>Annual Audit Letter 2017-18 Letter summarising the key messages arising from the Auditor General's statutory responsibilities under the Public Audit (Wales) Act 2004 and his reporting responsibilities under the Code of Audit Practice. The Annual Audit Letter is in Appendix 2 of this report.</p>	<ul style="list-style-type: none"> • The Council complied with its responsibilities relating to financial reporting and use of resources. • We are satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. • Our work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2017-18 accounts or key financial systems. 	None

Issue date	Brief description	Conclusions	Proposals for improvement
Local risk-based performance audit			
December 2018	<p>Thematic Review – Service User Perspective</p> <p>Review to gain assurance and insight into the extent to which services respond to the needs and expectations of service users both in their design and delivery and take their views and aspirations into account. This review focussed on the Council's housing tenants and leaseholders.</p> <p><u>Copy of the Auditor General's report</u></p>	<p>Tenants and leaseholders have positive views about many aspects of the Council's Welsh Housing Quality Standard (WHQS) programme including the quality, but are less satisfied with external works, the timeliness of work, and the extent to which the Council involves them and provides information on the works:</p> <ul style="list-style-type: none"> • the Council provides tenants and leaseholders with information about the WHQS programme, but it could better explain why the works are needed; • the Council could do more to ensure that the works are consistently completed on time across all areas; • those who have had improvement works are satisfied with the quality of internal works, but are less satisfied with external works; • tenants and leaseholders are involved with the works, but the Council inconsistently applies tenants' choice about electrical wiring; and • 85% of the tenants and leaseholders can quickly and easily contact the Council. 	<p>P1 To ensure that the WHQS programme meets the needs of all tenants and leaseholders the Council should;</p> <ul style="list-style-type: none"> • strengthen its communication approaches with all tenants and leaseholders, taking account of the experiences of different groups of residents; • monitor and report compliance with the Charter for Trust to address any identified issues; and • analyse complaints about the WHQS programme systematically to address the root causes and share learning to improve tenants' and leaseholders' experience of the programme.

Issue date	Brief description	Conclusions	Proposals for improvement
Local risk-based performance audit			
January 2019	<p>WHQS follow-up review Review to determine whether the Council is addressing our 2017 statutory recommendations and has appropriate systems in place to meet the WHQS by 2020.</p> <p><u>Copy of the Auditor General's report</u></p>	<p>The Council has responded positively to our June 2017 WHQS report and statutory recommendations by making significant improvements and as a result we now conclude that it is likely to meet the WHQS by December 2020:</p> <ul style="list-style-type: none"> • the Council has made significant progress in identifying the investment and resources it needs to complete its WHQS programme by the end of 2020; • the Council has taken steps to determine the value for money of its procurement arrangements; • there have been improvements to its WHQS performance reports, however, there is still inconsistent and inaccurate reporting of performance; • the Council now has measurable performance targets to effectively monitor the remainder of its WHQS programme; • the Council has strengthened its arrangements to meet its statutory landlord responsibilities; and • the Council has invested additional resources to enhance its WHQS programme management but still lacks a current Local Housing strategy and does not always produce comprehensive Equality Impact Assessments for key housing policy documents. 	<p>P1 The Council should ensure that members and tenants receive accurate WHQS performance information regularly about its progress towards achieving its 2020 programme deadline.</p> <p>P2 The Council should agree a Local Housing Strategy to set out its long-term vision for the future priorities for homes in Caerphilly.</p> <p>P3 The Council should ensure that Equality Impact Assessments are undertaken consistently.</p>

Issue date	Brief description	Conclusions	Proposals for improvement
Local risk-based performance audit			
March 2019	<p>Aligning Levers for Change: Business Improvement Portfolio Board</p> <p>Review providing real time constructive feedback and challenge to the Business Improvement Programme Board to help members of the Board have effective oversight of its major programmes and the strategic and co-ordinated approach to its services. Review on how effectively the Board and Programme deliver the overall vision and objectives.</p>	<p>The Council has recognised that a fresh approach to transformation is needed and Caerphilly 2022 (C2022) is therefore an opportunity not to be missed.</p> <p>The Council initiated its thinking around the C2022 programme in late 2018/early 2019 but it represents a critical opportunity for the Council to secure long-term transformation.</p> <p>The Council's initial thinking around C2022 indicates an increasing ambition for the Council's transformation agenda.</p> <p>There is an increasing realisation by the Council that its transformation agenda needs to be more ambitious and needs to align with the achievement of significant financial savings.</p>	<p>P1 Articulate the purpose, scope, vision and expected outcomes from C2022 and set out how the programme will:</p> <ul style="list-style-type: none"> • support/enable the delivery of its corporate plan and wellbeing objectives; • help it to sustainably deliver the savings required under the medium-term financial plan; and • sustainably secure improvement, value for money and a return on investment to achieve improved outcomes for citizens in an economical, efficient and effective way. <p>P2 Communicate its agreed vision to staff, partners, residents and other stakeholder groups as required to secure engagement and ownership.</p> <p>P3 Bring forward and prioritise specific and ambitious proposals for corporate and service transformation within the C22 programme.</p> <p>P4 Put in place robust governance and oversight arrangements for C2022. These should include as a minimum:</p> <ul style="list-style-type: none"> • a clear and proportionate approach to programme management. This should set out how proposals will be tested through development of robust business cases, and how savings proposals will be developed, managed and scrutinised in this context. • a delivery timeline that reflects key decision points in the Council's strategic planning and budgeting cycles. • appropriate arrangements for oversight, scrutiny, assurance and accountability. This should include opportunities for senior officers and members to meaningfully engage with and challenge the development and delivery of transformation proposals.

Issue date	Brief description	Conclusions	Proposals for improvement
Local risk-based performance audit			
			<p>P5 Ensure that it has both the capability and capacity to deliver the programme. This should include:</p> <ul style="list-style-type: none"> • identifying and addressing skill gaps in relation to the proposed transformation initiatives; • ensuring the right balance between corporate control and ownership/accountability amongst service leads; • putting in place a corporate resource to oversee and enable programme delivery; • ensuring that corporate services including; finance, HR, procurement, ICT and intelligence are actively supporting, enabling and challenging programme delivery and performance outcomes. • continuing to draw on critical challenge, external expertise and best practice from Wales and the UK (and beyond). <p>P6 Identify the measures of success and key milestones that will demonstrate to all stakeholders (public, staff, businesses, regulators) that it is on track to deliver the agreed financial, service and place-based outcomes.</p>

Issue date	Brief description	Conclusions	Proposals for improvement
Local risk-based performance audit			
June 2019	<p>Corporate Safeguarding Arrangements</p> <p>Review of the effectiveness of corporate safeguarding arrangements building on the study previously undertaken by the Auditor General in this area.</p> <p><u>Copy of the Auditor General's report</u></p>	<p>Although the Council has made some progress in addressing our previous recommendations, the Council needs to further strengthen its corporate safeguarding oversight and assurance arrangements</p>	<p>The review found that the Council had not fully addressed the following previous national recommendations and the Council should address these in full:</p> <p>R3 Strengthen safe recruitment of staff and volunteers by:</p> <ul style="list-style-type: none"> • ensuring that Disclosure and Barring Service (DBS) checks and compliance with safe recruitment policies cover all services that come into contact with children; • creating an integrated corporate compliance system to record and monitor compliance levels on DBS checks; and • requiring safe recruitment practices amongst partners in the third sector and for volunteers who provide services commissioned and/or used by the Council which are underpinned by a contract or service level agreement. <p>R4 Ensure all relevant staff, members and partners understand their safeguarding responsibilities by:</p> <ul style="list-style-type: none"> • ensuring safeguarding training is mandated and coverage extended to all relevant Council service areas, and is included as standard on induction programmes; • creating a corporate-wide system to identify, track and monitor compliance on attending safeguarding training in all Council departments, elected members, schools, governors and volunteers; and • requiring relevant staff in partner organisations who are commissioned to work for the Council in delivering services to children and young people to undertake safeguarding training.

Issue date	Brief description	Conclusions	Proposals for improvement
Local risk-based performance audit			
			<p>R6 Improve accountability for corporate safeguarding by regularly reporting safeguarding issues and assurances to scrutiny committee(s) against a balanced and Council-wide set of performance information covering:</p> <ul style="list-style-type: none"> • benchmarking and comparisons with others; • conclusions of internal and external audit/inspection reviews; • service-based performance data; • key personnel data such as safeguarding training, and DBS recruitment checks; and • the performance of contractors and commissioned services on compliance with Council safeguarding responsibilities. <p>R7 Establish a rolling programme of internal audit reviews to undertake systems testing and compliance reviews on the Council's safeguarding practices.</p> <p>R8 Ensure the risks associated with safeguarding are considered at both a corporate and service level in developing and agreeing risk management plans across the Council.</p>

Issue date	Brief description	Conclusions	Proposals for improvement
Improvement planning and reporting			
May 2018	Wales Audit Office annual improvement plan audit Review of the Council's published plans for delivering on improvement objectives.	The Council has complied with its statutory improvement planning duties.	None
November 2018	Wales Audit Office annual assessment of performance audit Review of the Council's published performance assessment.	The Council has complied with its statutory improvement reporting duties.	None
Reviews by inspection and regulation bodies			
No reviews by inspection and regulation bodies have taken place during the time period covered in this report.			

Appendix 1

Status of this report

The Local Government (Wales) Measure 2009 (the Measure) requires the Auditor General to undertake a forward-looking annual improvement assessment, and to publish an annual improvement report, for each improvement authority in Wales. Improvement authorities (defined as local councils, national parks, and fire and rescue authorities) have a general duty to 'make arrangements to secure continuous improvement in the exercise of [their] functions'.

The annual improvement assessment considers the likelihood that an authority will comply with its duty to make arrangements to secure continuous improvement. The assessment is also the main piece of work that enables the Auditor General to fulfil his duties. Staff of the Wales Audit Office, on behalf of the Auditor General, produce the annual improvement report. The report discharges the Auditor General's duties under section 24 of the Measure, by summarising his audit and assessment work in a published annual improvement report for each authority. The report also discharges his duties under section 19 to issue a report certifying that he has carried out an improvement assessment under section 18 and stating whether (as a result of his improvement plan audit under section 17) he believes that the authority has discharged its improvement planning duties under section 15.

The Auditor General may also, in some circumstances, carry out special inspections (under section 21), which will be reported to the authority and Ministers, and which he may publish (under section 22). An important ancillary activity for the Auditor General is the co-ordination of assessment and regulatory work (required by section 23), which takes into consideration the overall programme of work of all relevant regulators at an improvement authority. The Auditor General may also take account of information shared by relevant regulators (under section 33) in his assessments.

Appendix 2

Annual Audit Letter

Reference CCBC/AAL/1718

Date 3 September 2018

Councillor D Poole
Leader
Caerphilly County Borough Council
Penallta House
Tredomen Park
Ystrad Mynach
CF82 7PG

Cc: Ms Christina Harrhy

Dear Councillor Poole

Annual Audit Letter – Caerphilly County Borough Council 2017-18

This letter summarises the key messages arising from our statutory responsibilities under the Public Audit (Wales) Act 2004 and our reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires us to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that we have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

On 2 August 2018 we issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. Our report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee in our Audit of Financial Statements report on the 24 July 2018.

- the Council continues to demonstrate effective arrangements in the preparation of its financial statements, enabling the Council to approve the audited financial statements on 31 July 2018, significantly ahead of the statutory deadline of 30 September. The Council has continued to provide good quality draft financial statements and accompanying working papers for audit. These were available for us to commence our audit fieldwork in line with the agreed timetable.
- there were a number of misstatements that were corrected by management. All disclosure corrections were processed with no effect on the Council's reported outturn position.
- we identified a number of recommendations relating to Internal Audit, the Annual Governance Statement, journal controls and depreciation. A number of these issues have been reported in prior years.

We are satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources

Our consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

We issued a certificate confirming that the audit of the accounts was completed on 2 August 2018.

Our work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2017-18 accounts or key financial systems.

A more detailed report on our grant certification work will follow in January 2019 once this year's programme of certification work is complete.

The financial audit fee for 2017-18 is currently expected to be in line with the agreed fee set out in the Annual Audit Plan.

Yours sincerely

Grant Thornton UK LLP

**Grant Thornton UK LLP
For and on behalf of the Auditor General for Wales**

Appendix 3

National report recommendations 2018-19

Exhibit 3: national report recommendations 2018-19

Date of report	Title of review	Recommendation
October 2018	<u>Procuring Residual and Food Waste Treatment Capacity</u>	<p>R1 The projections for the three residual waste projects in the Programme assume that, across the 14 councils involved, the overall amount of residual waste will increase through the lifetime of the contracts. If these projections are accurate then something significant would have to occur beyond 2040 to reach zero waste across these council areas by 2050. If the projections are not accurate then there is the risk that councils will pay for capacity they do not need. We recommend that the Welsh Government:</p> <ul style="list-style-type: none">• in reviewing the Towards Zero Waste strategy, considers how its ambition of there being no residual waste by 2050 aligns with current projections for residual waste treatment; and• works with councils to consider the impact of changes in projections on the likely cost of residual waste projects and any mitigating action needed to manage these costs.

Date of report	Title of review	Recommendation
		<p>R2 The Welsh Government's programme support to date has mainly focused on project development and procurement. Now that most of the projects are operational, the focus has shifted to contract management. We recommend that the Welsh Government continue its oversight of projects during the operational phase by:</p> <ul style="list-style-type: none"> • building on its existing model of providing experienced individuals to assist with project development and procurement and making sure input is available to assist with contract management if required; • setting out its expectations of councils regarding contract management; • ensuring partnerships revisit their waste projections and associated risks periodically, for example to reflect updated population projections or economic forecasts; and • obtaining from partnerships basic management information on gate fees paid, amount of waste sent to facilities and quality of contractor service.

Date of report	Title of review	Recommendation
November 2018	<u>Local Government Services to Rural Communities</u>	<p>R1 Socio economic change, poor infrastructure and shifts in provision of key services and facilities have resulted in the residualisation of communities in rural Wales. We recommend that Welsh Government support public bodies to deliver a more integrated approach to service delivery in rural areas by:</p> <ul style="list-style-type: none"> • refreshing rural grant programmes to create sustainable financial structures, with multi-year allocations; and • helping people and businesses make the most of digital connectivity through targeted and more effective business and adult education support programmes. <p>R2 The role of Public Service Boards is evolving but there are opportunities to articulate a clearer and more ambitious shared vision for rural Wales (see paragraphs 2.2 to 2.9 and 2.28 to 2.31). We recommend that PSB public service partners respond more effectively to the challenges faced by rural communities by:</p> <ul style="list-style-type: none"> • assessing the strengths and weaknesses of their different rural communities using the Welsh Government’s Rural Proofing Tool and identify and agree the local and strategic actions needed to support community sustainability; and • ensuring the Local Well-Being Plan sets out a more optimistic and ambitious vision for ‘place’ with joint priorities co-produced by partners and with citizens to address agreed challenges.

Date of report	Title of review	Recommendation
		<p>R3 To help sustain rural communities, public services need to think differently in the future (see paragraphs 3.1 to 3.12). We recommend councils provide a more effective response to the challenges faced by rural communities by:</p> <ul style="list-style-type: none"> • ensuring service commissioners have cost data and qualitative information on the full range of service options available; and • using citizens' views on the availability, affordability, accessibility, adequacy and acceptability of council services to shape the delivery and integration of services.

Date of report	Title of review	Recommendation
		<p>R4 To help sustain rural communities, public services need to act differently in the future (see paragraphs 3.1 to 3.12). We recommend councils do more to develop community resilience and self-help by:</p> <ul style="list-style-type: none"> • working with relevant bodies such as the Wales Co-operative Centre to support social enterprise and more collaborative business models; • providing tailored community outreach for those who face multiple barriers to accessing public services and work; • enhancing and recognising the role of town and community councils by capitalising on their local knowledge and supporting them to do more; • encouraging a more integrated approach to service delivery in rural areas by establishing pan-public service community hubs, networks of expertise, and clusters of advice and prevention services; • enabling local action by supporting community asset transfer identifying which assets are suitable to transfer, and having the right systems in place to make things happen; and • improving community-based leadership by developing networks of interest, training and coaching, and encouraging volunteering.

Date of report	Title of review	Recommendation
November 2018	<u>Waste Management in Wales: Municipal Recycling</u>	<p>R1 Benchmarking work has found that the cost of certain waste management services shows surprising variation (paragraphs 1.31-1.39). The Welsh Government should work with councils to understand better the basis of the variation in spending on waste management services that are fundamentally the same and ensure that waste management costs are accounted for in a consistent way.</p> <p>R2 The Welsh Government believes that, if applied optimally, its Collections Blueprint offers the most cost-effective overall means of collecting recyclable resources but is planning further analysis (paragraphs 1.40-1.51). When undertaking its further analysis to understand better the reasons for differences in councils' reported costs, and the impact on costs where councils have adopted the Collections Blueprint, we recommend that the Welsh Government:</p> <ul style="list-style-type: none"> • explores how the cost of collecting dry recyclables may affect the overall cost of providing kerbside waste management services to households; and • compares the actual costs with the costs modelled previously as part of the Welsh Government-commissioned review of the Collections Blueprint for councils that now operate the Collections Blueprint.

Date of report	Title of review	Recommendation
		<p>R3 The Welsh Government has undertaken to consider alternatives to the current weight-based recycling targets which can better demonstrate the delivery of its ecological footprint and carbon reduction goals (paragraphs 2.38-2.45). We recommend that the Welsh Government replace or complement the current target to recycle, compost and reuse wastes with performance measures to refocus recycling on the waste resources that have the largest impact on carbon reduction, and/or are scarce. We recognise that the Welsh Government may need to consider the affordability of data collection for any alternative means of measurement.</p> <p>R4 In refreshing Towards Zero Waste, the Welsh Government needs to show that wider sustainability benefits sought through municipal recycling offer value and cannot be more readily attained in other ways and at lower cost including, but not necessarily limited to, other waste management interventions (paragraphs 2.52-2.53). The Welsh Government should demonstrate in the revised waste strategy that not only is it possible to recycle a greater proportion of municipal waste, but how doing so maximises its contribution to achieving its sustainable development objectives.</p>

Date of report	Title of review	Recommendation
November 2018	<u>Provision of Local Government Services to Rural Communities: Community Asset Transfer</u>	<p>R1 Local authorities need to do more to make CATs (Community Asset Transfers) simpler and more appealing, help build the capacity of community and town councils, give them more guidance in raising finance, and look to support other community development models such as social enterprises that support social value and citizen involvement. In addition, we recommend that local authorities monitor and publish CAT numbers and measure the social impact of CATs.</p> <p>R2 Local authorities have significant scope to provide better and more visible help and support before, during, and after the community asset transfer process. We conclude that there is considerable scope to improve the business planning, preparation, and aftercare for community asset transfer. We recommend that local authorities:</p> <ul style="list-style-type: none"> • identify community assets transfer's role in establishing community hubs, networks of expertise and clusters of advice and prevention services; • work with town and community councils to develop their ability to take on more CATs; • identify which assets are suitable to transfer, and clarify what the authority needs to do to enable their transfer; • ensure their CAT policy adequately covers aftercare, long term support, post transfer support, signposting access to finance, and sharing the learning about what works well; and • support community-based leadership by developing networks of interest, training and coaching, and encouraging volunteering.

Date of report	Title of review	Recommendation
December 2018	<u>The maturity of local government in use of data</u>	<p>R1 Part 1 of the report highlights the importance of creating a strong data culture and clear leadership to make better use of data. We recommend that local authorities:</p> <ul style="list-style-type: none"> • have a clear vision that treats data as a key resource; • establish corporate data standards and coding that all services use for their core data; • undertake an audit to determine what data is held by services and identify any duplicated records and information requests; and • create a central integrated customer account as a gateway to services. <p>R2 Part 2 of the report notes that whilst it is important that authorities comply with relevant data protection legislation, they also need to share data with partners to ensure citizens receive efficient and effective services. Whilst these two things are not mutually exclusive, uncertainty on data protection responsibilities is resulting in some officers not sharing data, even where there is agreement to provide partners with information. We recommend that authorities:</p> <ul style="list-style-type: none"> • provide refresher training to service managers to ensure they know when and what data they can and cannot share; and • review and update data sharing protocols to ensure they support services to deliver their data sharing responsibilities.

Date of report	Title of review	Recommendation
		<p>R3 In Part 3 of our report, we conclude that adequate resources and sufficient capacity are ongoing challenges. However, without upskilling staff to make better use of data, authorities are missing opportunities to improve their efficiency and effectiveness. We recommend that authorities:</p> <ul style="list-style-type: none"> • identify staff who have a role in analysing and managing data to remove duplication and free up resources to build and develop capacity in data usage; and • invest and support the development of staff data analytical, mining and segmentation skills. <p>R4 Part 4 of our report highlights that authorities have more to do to create a data-driven decision-making culture and to unlock the potential of the data they hold. We recommend that local authorities:</p> <ul style="list-style-type: none"> • set data reporting standards to ensure minimum data standards underpin decision making; and • make more open data available.

Date of report	Title of review	Recommendation
March 2019	<u>Waste Management in Wales - Preventing waste</u>	<p>R1 Increasing the focus on waste prevention to reflect the overall aims of Towards Zero Waste</p> <p>Available data on the amount of waste produced suggests mixed progress to deliver the Welsh Government's waste prevention targets. We recommend that the Welsh Government:</p> <ul style="list-style-type: none"> a) revisits the relative priority it gives to recycling and waste prevention as part of its review of Towards Zero Waste; b) sets out clearly the expectations on different organisations and sectors for waste prevention; and c) revisits its overall waste prevention targets and the approach it has taken to monitor them in light of progress to date, examples from other countries and in the context of current projections about waste arising through to 2050. <p>R2 Improving data on commercial, industrial, construction and demolition waste</p> <p>The Welsh Government is a partner in initial work to assess the feasibility of developing a new digital solution to track all waste. If this preferred option does not succeed, we recommend that the Welsh Government works with Natural Resources Wales to explore the costs and benefits of other options to improve non-municipal waste data in Wales, including additional powers to require waste data from businesses.</p>

Date of report	Title of review	Recommendation
		<p>R3 Enhancing producer responsibility and using more legal, financial and fiscal levers</p> <p>The Welsh Government has opportunities to influence waste prevention through legislation and financial incentives. It can also influence changes at the UK level where fiscal matters are not devolved. We recommend that the Welsh Government consider whether provisions to extend producer responsibility and the use of financial powers such as grant conditions, fiscal measures and customer charges and incentives, are needed to promote and to prioritise waste prevention.</p>
June 2019	<p><u>The Effectiveness of Local Planning Authorities in Wales</u></p>	<p>R1 Part 1 of the report sets out the complexities of the planning system showing how challenging it is for local planning authorities to effectively engage with and involve stakeholders in choices and decisions. To improve involvement with stakeholders and ownership of decisions we recommend that:</p> <ul style="list-style-type: none"> • local planning authorities: <ul style="list-style-type: none"> – test current engagement and involvement practices and consider the full range of other options available to ensure involvement activities are fit for purpose; – use ‘Place Plans’ as a vehicle to engage and involve communities and citizens in planning choices and decision making; and – improve transparency and accountability by holding planning meetings at appropriate times, rotating meetings to take place in areas which are subject to proposed development, webcasting meetings and providing opportunities for stakeholders to address committee meetings. • the Welsh Government: <ul style="list-style-type: none"> – review the Development Management Procedure Order 2012 and update the engagement and involvement standards for local planning authorities.

Date of report	Title of review	Recommendation
		<p>R2 Part 2 of the report highlights that local planning authorities have been subject to significant reductions in funding and struggle to deliver their statutory responsibilities. To improve resilience, we recommend that local planning authorities:</p> <ul style="list-style-type: none"> • review their building control fee regimes to ensure the levels set better reflect the actual cost of providing these services and make the service self-funding; and • improve capacity by working regionally to: <ul style="list-style-type: none"> – integrate services to address specialism gaps; – develop joint supplementary planning guidance; and – develop future local development plans regionally and in partnership with other local planning authorities. <p>R3 Part 2 of the report highlights that the cost of development control services is not reflected in the charges set for these services and progress in developing regional responses to strengthen resilience has been slow. We recommend that the Welsh Government:</p> <ul style="list-style-type: none"> • review development control fees to ensure the levels set, better reflect the actual cost of providing these services; and • consider how to use the powers in the Planning (Wales) Act to support and improve local planning authority capacity and resilience.

Date of report	Title of review	Recommendation
		<p>R4 Part 3 of the report summarises the effectiveness and impact of local planning authorities' decision making and how well they are performing against national measures. We recommend that local planning authorities improve the effectiveness of planning committees by:</p> <ul style="list-style-type: none"> • reviewing their scheme of delegation to ensure planning committees are focussed on the most important strategic issues relevant to their authority; • revising reporting templates to ensure they are clear and unambiguous to help guide decision making and reduce the level of officer recommendations overturned; and • enforcing the local planning authorities' standards of conduct for meetings. <p>R5 Part 4 of the report identifies the central role of planning to deliver the ambitions of the Well-being of Future Generations Act. We recommend that local planning authorities:</p> <ul style="list-style-type: none"> • set a clear ambitious vision that shows how planning contributes to improving wellbeing; • provide planning committee members with regular and appropriate wellbeing training and support to help deliver their wider responsibilities; • set appropriate measures for their administration of the planning system and the impact of their planning decisions on wellbeing; and • annually publish these performance measures to judge planning authorities' impact on wellbeing.

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AUDIT COMMITTEE - 15TH OCTOBER 2019

SUBJECT: CORPORATE RISK REGISTER MONITORING (Q1) 2019/20

REPORT BY: CORPORATE DIRECTOR OF EDUCATION & CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To provide an update on the Corporate Risk Register in accordance with the Council's Risk Management Strategy.
- 1.2 The updated Corporate Risk Register (Appendix 1) is presented to the Audit Committee to provide an opportunity for the Committee to satisfy itself that appropriate arrangements are in place for the Council's risk management processes to be regularly and robustly monitored and scrutinised.
- 1.3 To update the Audit Committee on changes being made to the overall Performance Reporting Framework through the introduction of Directorate Performance Assessments (DPA's).

2. SUMMARY

- 2.1 Under the Council's Risk Management Strategy, the Corporate Management Team (CMT) own, manage, monitor and review the Council's Corporate Risks on a quarterly basis, with six monthly progress reports being submitted to Cabinet. Updates are also provided to the Audit Committee, which has the role of reviewing and challenging the Corporate Risk Register and where relevant, resultant action plans for the Council's key strategic and corporate risks.
- 2.2 In order to present the most recent information, this report focuses on the CMT update of 30th September 2019.

3. RECOMMENDATIONS

- 3.1 It is recommended that the Audit Committee considers the content of the Corporate Risk Register and associated mitigating actions.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 For the Audit Committee to satisfy itself that robust processes and procedures exist and are applied for the management of top level risks. Members have a critical role to play in evaluating the Council's risk management arrangements and in particular understanding how the council identifies, manages and, where possible, mitigates/removes risk.

5. THE REPORT

- 5.1 Risks within the Authority are identified and managed at different levels. Service Plans identify risks to delivering business whilst Directorate risks identify more significant risks that may have cause and effect across a Directorate. The CMT Risk Register is the highest level of risks to the whole authority, often referred to as the Corporate Risk Register.
- 5.2 The Council's Performance Management Framework has been reviewed and redesigned over the course of the last 12 months and this has included how risk is reviewed. As such, this is the first time the Corporate Risk Register has been presented to the Audit Committee this calendar year. Although there has been a delay in providing the Audit Committee with an update, the Corporate Risk Register has continued to be monitored by CMT as part of the process of developing new Directorate Performance Assessments (DPA's).
- 5.3 The DPA's are a new way of reporting that brings together a range of information into one 'single source of the truth'. The DPA's include an update on Directorate priorities, performance data, finance and resource data, people data such as sickness information and risks. The purpose is to gain a 'holistic view' of a service and how it performs and to identify any cause and effect in performance. The DPA's will be updated on a quarterly basis and the risks identified as part of this will be escalated where appropriate to the Corporate Risk Register. A significant advantage of this new approach is that CMT will have a view of risks laterally across Directorates as well as 'top down'.
- 5.4 The Corporate Risk Register is a 'living document' and will change when reviewed and assessed on a quarterly basis. New risks will emerge and some existing risks will be closed. Furthermore, risk ratings will change (red/amber/green) and mitigating actions and progress comments will be updated.

Conclusion

- 5.5 In line with the approved Risk Management Strategy the Corporate Risk Register is periodically reviewed and updated and is presented to the Audit Committee to provide an opportunity for the Committee to satisfy itself that appropriate arrangements are in place for the Council's risk management processes to be regularly and robustly monitored and scrutinised.

6. ASSUMPTIONS

- 6.1 There are no assumptions in this report.

7. LINKS TO RELEVANT COUNCIL POLICIES

- 7.1 Corporate Plan 2018-2023 (reviewed and updated 2019).

8. WELL-BEING OF FUTURE GENERATIONS

- 8.1 Management of risk is an important element in delivering council priorities and ensuring contribution to the Well-being Goals as set out in the Well-being of Future Generations (Wales) Act 2015 [WBFGA]:
- 8.2 The Well-being of Future Generations (Wales) Act 2015 [WBFGA] identifies a core set of activities that are common to the corporate governance of public bodies where change needs to happen:
- Corporate Planning
 - Financial Planning

- Workforce Planning
- Procurement
- Assets
- **Risk Management**
- Performance Management

8.3 The Corporate Risk Register incorporates the five ways of working (ICLIP) identified within the sustainable development principle in the WBFGA. These are:

- **Involving** a diversity of the population in the decisions that affect them.
- Working with others in a **Collaborative** way to find shared sustainable solutions.
- Looking to the **Long-term** so that we do not compromise the ability of future generations to meet their own needs.
- Taking an **Integrated** approach so that public bodies look at all the well-being goals in deciding on their well-being objectives.
- Understanding the root causes of issues to **prevent** them from occurring.

8.4 Risks are assessed in terms of their implications for the well being of future generations.

9. EQUALITIES IMPLICATIONS

9.1 The Local Government Measure defines fairness and access as one of the criteria that constitutes 'improvement' within the Wales programme for Improvement 2009.

9.2 Promoting equalities is a fundamental requirement of the Future Generations legislation, with specific resonance for meeting the Well-being Goals of: *A More Equal Wales*, and *A Wales of Cohesive Communities*

9.3 An Equalities Impact Assessment (EIA) is not needed as this report relates to identified risks and any actions to address risks that require a report will have an EIA if required.

10. FINANCIAL IMPLICATIONS

10.1 There are no direct financial implications to this report, although Appendix 1 identifies risks regarding the Medium-Term Financial Plan (MTFP).

11. PERSONNEL IMPLICATIONS

11.1 There are no personnel implications arising from this report.

12. CONSULTATIONS

12.1 This report has been sent to the consultees listed below and all comments received are reflected in this report.

13. STATUTORY POWER

13.1 Local Government (Wales) Measure 2009 and Well-being of Future Generations (Wales) Act 2015.

Author: Ros Roberts, Business Improvement Manager, roberr@caerphilly.gov.uk

Consultees: Richard Edmunds – Corporate Director for Education and Corporate Services
Stephen Harris – Interim Head of Business Improvement Services & Acting S151 Officer
Kathryn Peters – Corporate Policy Manager

Appendices: Appendix 1 – Corporate Risk Register (Quarter 1, 2019/20)

Ref - Appendix 1	Topic (& Service)	Risk, opportunities and Impact	Mitigation Actions (What actions can we take to address the risks or realise the opportunity)	Progress Update (Are the mitigating actions reducing the risk or realising the opportunity?)	Risk Level 2019-20 Q1	Does the risk affect the Well-being of our Communities?	Well-being Risk Level
CRR 01 - All Directorates	Exit from the EU (Brexit).	The decision to leave the EU and the looming deadline to secure an exit deal has created considerable uncertainty. Moving forward it is difficult to determine what impact the exit from the EU will have in the medium to longer-term for Caerphilly CBC and our communities. However, in the short-term possible negative impacts from a No Deal scenario include the potential for workforce supply shortages in some areas and the possibility of some disruption to the supply of goods and services. There is also potential for price increases in the event of a No Deal exit.	An internal Brexit Working Group has been established consisting of key staff across all Directorates. There is also cross-party political representation on this Group. The Council has also set aside £1m to meet any short-term financial impacts arising from Brexit.	There remains a great deal of uncertainty around the potential positive or negative impacts of the decision to leave the EU with the 31st October deadline approaching. The Brexit Working Group continues to meet on a monthly basis to monitor the position and regular updates are being provided for both the Corporate Management Team and Cabinet.	Medium	Potential impacts are not fully understood but they are likely to be felt over the short, medium and longer-term.	Unable to assess currently due to the level of uncertainty.
CRR 02 - All Directorates	Medium-Term Financial Plan (MTFP)	Failure to identify sufficient savings to support the Medium-Term Financial Plan (MTFP). It is currently anticipated that further savings of up to £44m will be required for the four-year period 2020/21 to 2023/24 with savings of £15.7m required for 2020/21 alone.	The Authority has a strong record of delivering balanced budgets and planning is already underway to ensure that 2020/21 Draft Budget Proposals are presented to Cabinet on the 13th November 2019.	Heads of Service have submitted 2020/21 draft savings proposals for consideration. These are currently being shared with the Corporate Management Team and Cabinet with a view to 2020/21 Draft Budget Proposals being formally presented to Cabinet on the 13th November 2019. This will be followed by an eight week consultation process prior to Final 2020/21 Budget Proposals being presented to Council in February 2020. Moving forward it is clear that a change in approach will be required to address the significant challenges that lie ahead. At its meeting on the 12th June 2019 the Cabinet was presented with the Future Caerphilly Transformation Strategy, which is being launched as #TeamCaerphilly – Better Together. This Strategy sets out details of a major transformation programme to examine how services are prioritised, how they can become more business efficient, to explore opportunities for greater customer focus and digital delivery, and to consider alternative delivery models and seek out commercial opportunities. Furthermore, to enable the Council to continue providing high quality value for money services in an environment that will require new approaches and new skills, a new relationship will need to be built with staff and communities.	Medium	Yes, we need to explain how it affects the Well being of Future Generations in our Communities	Medium
CRR 03 - All Directorates	GDPR Information Governance	<ul style="list-style-type: none"> Failure to locate reliable information quickly impacts on service delivery, plus we are missing an opportunity to use the Council's information assets more widely to benefit other Council services. GDPR introduces fines of up to 20million Euros for failing to evidence compliance, including Privacy Impact Assessments at early stage, and for data breaches. Failure to comply with information requests (e.g. FOI) could lead to action by the Information Commissioner's Office - compliance expectation increased to 90% These risks could result in adverse press, loss of trust by the public, and criticism from the Council's auditors. 	IGPT activity reported to Corp Gov Panel, including: <ul style="list-style-type: none"> Report on options for GDPR DPO role Review Information Asset Registers to include info required by GDPR, e.g. legal basis for processing Continue SIRO review of Information Risk Returns Update and re-launch DPA training, inc Members Update info sharing register to identify contract improvements Enforce use of privacy notices and Privacy Impact Assessments Implement records management programme, including better identification/creation of records and backlogs addressed (e.g. email, networks) and ensure records with historic value are protected Review publication scheme and charges for info requests Continue suspension of surveillance activity 	<ul style="list-style-type: none"> Protecting Information training available, and brand new modules for staff and members Information risk returns informing SIRO statement in AGS Records management work programme developed, inc records backlogs and liaison with Gwent and Glamorgan Archives info request compliance monitored, EIRs better identified as charging may be possible, and IG Stewards updating Publication Scheme Data Protection Impact Assessments on proposals, especially on new partnerships and if there is an element of monitoring to ensure ICO action/Council stance is adhered to 85% privacy notices complete of those originally identified, with others reviewed as 'business-as-usual' data processing agreements embedded in procurement arrangements WASPI protocols developed where necessary 	Medium	Yes - protection of privacy (Article 8 HRA), Duty to Document and protection of historic records to evidence public sector activities	Medium
CRR 04 - All Directorates	Climate Change	Not being prepared for the impacts associated with climate change. For Caerphilly this will manifest as a more volatile weather pattern: <ol style="list-style-type: none"> More severe storms resulting in damage to trees and buildings. Increase in winter rainfall resulting in flooding, affecting people, property and infrastructure, including availability of outdoor sport pitches. Extreme Weather Conditions: Difficulty in modifying temperatures in some of our buildings (incl. Housing) could lead to increased financial burden, uncomfortable environment conditions (dangerous temperatures) affecting people's health, wellbeing and delivery/receipt of effective services. Changes in species including a decline in native species, changes in migration patterns and increases in alien and invasive species, including pests and disease. Reduction in summer rainfall resulting in reduced river flows and water availability. Increase in levels of extreme weather such as snow/ice which could potentially impact on not only the travelling public but the elderly/frail and those in fuel poverty 	A Local Climate Impact Profile (LCLIP) has been prepared and links to other plans including Highways Winter Maintenance Plans, Business Continuity Plans & Emergency Plans etc. Mitigation work being undertaken includes: <ol style="list-style-type: none"> A Tree Management Strategy and implementation of resources to manage tree stock. Assessing the condition of trees. Assessing the vulnerability of drainage infrastructure in excessive rainfall. Installing flood risk measures at priority vulnerable locations. Considering climate change in the Asset Management Programme. Street lighting options being considered to reduce Carbon emissions 	<ol style="list-style-type: none"> An additional Arboricultural Officer has been appointed to assist with programme of tree surveys undertaken to deliver the adopted Tree Management Strategy. Tree works being undertaken in accordance with survey recommendations. Local Flood Risk Management Strategy (Engineering) in place. Risca flood defences now completed. Sustainable Drainage Approval Body (SAB) implemented from 7th Jan 2019 to improve control and approval for drainage infrastructure on new developments. New Land Drainage Bye Laws now approved. Pitch drainage capital is being selectively spent at priority sites. Ongoing staff training is being delivered by the Corporate Energy Team Re: Energy Efficiencies/Carbon Management and Effects of Climate Change. Several projects have been delivered for solar PV installations to Corporate Building (e.g. Care Homes) and schools. Biodiversity Work: Supporting 'pollinators' projects including work with Sirhowy Valley Honey Bee Company. The Winter Service Plan 2018 (Highways) has been reviewed, updated, placed on the CCBC internet and effectively delivered to date. Our wider organisational response to extreme weather events were the subject of a de-brief and review following the snow event of March 2018 and new Corporate 	Medium	Yes - there is an impact to a 'Resilient Wales' by not proactively addressing the operational response to climate change. The contribution to global issues and a 'Globally Responsible Wales' is met through low carbon planning and sustainable development. There is a direct impact to Health also.	Medium

Ref - Appendix 1	Topic (& Service)	Risk, opportunities and Impact	Mitigation Actions (What actions can we take to address the risks or realise the opportunity)	Progress Update (Are the mitigating actions reducing the risk or realising the opportunity?)	Risk Level 2019-20 Q1	Does the risk affect the Well-being of our Communities?	Well-being Risk Level
		and those in fuel poverty. 7. Grass fires. 8. Vehicles being used by the authority are outdated and therefore consuming more fuel and producing higher levels of emissions. 9. Extremities in foliage growth, and the reduction in both street/highways cleansing, and weed control, will have a direct impact on future maintenance and environmental damage controls, potentially leading to systematic failures and increased costs to the authority for response repairs (e.g. Footpaths; Highways; Gullies; Drainage; Cycleways) as well as public liabilities.		8. A fleet contract (Managed Service Partnership) has been established to implement a replacement programme which is raising vehicle standards, improve fuel consumption and emissions, and reduce servicing, maintenance and breakdown demands (improve efficiencies). Trialling electric vehicles. 9. Street lighting: Proposals approved for lamp replacement programme (LED) and part-night-lighting (a strategy being implemented over a two year phased approach).			
CRR 05 - Communities Directorate	Community & Leisure: Greenspace and Landscape Services	Ash die back (<i>Chalara fraxinea</i>) is the most significant disease to affect the UK tree population since dutch elm disease in the 1960's. The disease will result in the decline and death of the majority of ash trees in Britain. Unfortunately, many ash trees predominantly line our roadside verges, so the disease will affect high risk locations. In our borough, ~ 37,400 + ash trees could be affected by this, requiring substantial resource, logistics and environmental considerations/implications, such as: a) Thorough surveys (to identify needs/requirements) b) The formulation of a Removal Strategy c) Budgeting and Finance d) Considerable clean-up and disposals e) Wider environmental impact (contaminations/biodiversity/eco systems) f) Wider impacts on road sweeping and weed treatment. All of which, will ultimately lead to damage to the environment and its	Initial action to include: 1. Interim CEO to discuss at G10 meeting of Gwent Chief Executives with a view to them lobbying WG for funding 2. Interim Director of Communities to raise with the WLGa so that they can lobby WG for funding. Followed by: 3. Write, approve and implement a Removal Strategy and 4. Secure appropriate Funding Streams to implement the Removal Strategy. 5. Source and secure wider partnership and collaborative arrangements to implement all necessary works. 6. Clarify known 'hot-spots' for initialising works, to control and manage any associated public risks/disruptions.	It is already known that this will require a substantial cost implication due to the logistics and labour intense nature of addressing such matters. Considered the content and guidance as available from The Tree Council publication: ASH DIEBACK: an Action Plan Toolkit First published February 2019 Recently published research by the University of Oxford, Fera Science, the Sylva Foundation and the Woodland Trust calculated that this disease will have a significant cost impact across the country, due to the significantly high levels of mortality rates to the tree species affected (75%+).	High		Unknown
CRR 06 - Communities Directorate	Regeneration & Planning: Local Development Plan	The Adopted LDP is due to expire on 31/12/21. The Replacement LDP was well advanced, however, the Council withdrew that plan in July 2016 following local opposition to a number of development sites contained within the Plan. The Council has resolved to progress the preparation of a Strategic Development Plan and a new LDP in parallel. The adopted LDP allocates land for the development of 8625 houses to be built over a 15 year period. The annual Joint Housing Land Availability Study indicates that many of the allocated sites are not available or viable within the required 5 year period, and there is therefore a shortfall of housing land. Housing developers will therefore submit applications to develop land that is not allocated in the LDP. The Council will consider the applications, but the lack of a five-year housing land supply will be a material planning consideration which could outweigh other policies in the plan. A refusal of planning permission may lead to an increase in appeals and award of costs if the Council is considered to have behaved unreasonably, e.g. where a reason for refusal is not based on any sound evidence.	The Adopted LDP remains in force until 2021. In the interim, officers are working closely with Welsh Government officials to agree the appropriate footprint for strategic planning for the Cardiff Capital Region. On 29th January 2018 the Cardiff Capital Region Cabinet agreed that work should commence on a Strategic Development Plan (SDP) for the area. A formal report is to be considered by the Cabinet on the 10th June 2019 which will determine the timeline for reporting this matter to all ten Councils.	Chief Planning Officers and Planning Policy lead officers have met monthly as a Project Group to progress various work streams necessary to establish the project in advance of the formal commencement of plan preparation. It is unlikely that the 5 year land supply can be addressed in the short term. In the medium to long term a replacement plan will increase the land supply position. A number of significant applications have been submitted and approved by Welsh Government on appeal, resulting in significant cost to the authority. Having regard to the number of potential future developments there are concerns that existing infrastructure such as transport, schools, and other services is inadequate. Due to the number of impending developments being agreed by the WG Planning Inspector we have moved this into a high risk category. Directorates have been asked to identify funding required to enable input / completion of the LDP.	High	Level unknown at present	Unknown
CRR 07 - Education & Lifelong Learning Directorate	School Attainment	1. Attainment levels are still below the Welsh average, below local Authorities with a similar Free School Meal population. 2. There is a gap between the attainment of Free School Meals pupils and Non-Free School Meals pupils which must be addressed. 3. Higher than expected rates of exclusion will impact on pupil attainment.	1. Standards of attainment are monitored and reported to the Senior Management Team (SMT) / Corporate Management Team (CMT) / Scrutiny Committee, through an annual programme of reporting described in the Directorate Plan Handbook. 2. Through the newly revised Sharing Ambitions document, the LA will continue to work closely with the EAS to ensure that schools are challenged and supported effectively. 3. Schools most at risk of underperformance will be monitored through the regional Schools Causing Concern process. 4. Where schools fail to make the expected progress at the expected rate, in consultation with the EAS, the LA will consider the use of statutory powers.	The unverified data for KS4 indicates an improving trend across the range of Legacy Indicators and newly implemented interim measures. There is a downward trend in the majority of indicators for exclusions.	High	Yes, this limits contribution to 'Prosperous and More Equal Wales'. Standards of attainment and gaps in inequality can result in a low skilled, low paid workforce, and higher levels of unemployment leading to poverty. Over the long-term (25 years) in the life of a young child to adult the potential outcome of the attainment gap makes this a high risk. This is a long term risk	High

Ref - Appendix 1	Topic (& Service)	Risk, opportunities and Impact	Mitigation Actions (What actions can we take to address the risks or realise the opportunity)	Progress Update (Are the mitigating actions reducing the risk or realising the opportunity?)	Risk Level 2019-20 Q1	Does the risk affect the Well-being of our Communities?	Well-being Risk Level
CRR 08 - Social Services & Housing Directorate	Fragility of the Social Care market. The independent sector social care market across Wales is in an unprecedented position in terms of its fragility and this is starting to be felt in Caerphilly.	<ul style="list-style-type: none"> Providers unable to sustain existing packages of care. National Minimum Wage and National Living Wage creating additional financial strain which providers are expecting LA's to resolve. Little additional capacity to take on new packages of care. Ongoing Judicial Review across Wales re responsibility for Funded Nursing Care Payments. Potential financial impact on the Directorate and Authority. Introduction of RISCA from 01.04.18 could have significant implications for recruitment and retention of staff. 	Fee levels for 2017/18 agreed at 3.1%. This was funded via a mix of core funding and CCBC's element of the Social Care Workforce grant paid by Welsh Government. A further element of workforce funding has recently been released by WG. Discussions are ongoing with commissioned providers to determine how these monies should be allocated. Fee levels for 18/19 agreed at 2%	No change in risk level. 2018/19 fees agreed. Further concerns with regard to stability. Largest provider of domiciliary care in the UK in financial difficulty, this resulted in us cancelling our contract with them and moving to a new provider to ensure service maintained and resources are not only in large providers. Further representations from Providers in relation to fee levels. Debates at a national level re sustainability of funding levels. One Nursing home has closed within the borough and 2 further homes have now been identified as services of concern. An increase of 4% has been agreed for 2019/20 but for Domiciliary Care the increase is greater than this as a consequence of a recently completed procurement process.	High	Yes - reducing help that can be provided for the most vulnerable in our society will affect our ability to contribute to a 'Healthier Wales' which requires peoples mental and physical well-being to be maximised. Whilst this may be a medium risk operationally from a FGA perspective this would be high as it directly affects those most in need.	High (Medium-term)
CRR 09 - Social Services & Housing Directorate	WAO Corporate Safeguarding Review	WAO Review identified a number of areas for improvement that need to be addressed across the whole Council.	Corporate Safeguarding Board will meet quarterly to monitor an Action Plan to address the recommendations that has been developed by the Designated Safeguarding Officers in each Service area. Review and Action Plan to be presented to Cabinet and Scrutiny Committees.	Action Plan developed and dates for Cabinet and Scrutiny have been set.	Medium	Yes	Medium
CRR 10 - Social Services & Housing Directorate	Welsh Housing Quality Standard (WHQS) programme	Failure to meet WHQS for all our social housing stock by 2020. Everyone in Wales should have the opportunity to live in a good quality home within a safe and secure community. To help achieve this, the physical standard and condition of existing housing must be maintained and improved to the Welsh Housing Quality Standard (WHQS).	<p>The WHQS programme has its own specific risk register which is reviewed and updated by the Project Board quarterly.</p> <p>The highest risks are:</p> <ul style="list-style-type: none"> Failure to achieve programme objectives - the probability level has increased due to one of the main internal works contractors having ceased trading and another (Vinci) terminating their contract early. Arrangements were made to initiate internal work via the DPS to achieve WHQS by 2020. There is still a risk in relation to the external works, however significant improvements in performance have been made. Contingency arrangements have been implemented as identified below. 	A further review of the delivery of the programme was undertaken during April - October 2018 by WAO and the final report received at the end of Qtr3. The conclusion of the report was that Caerphilly Homes is now likely to achieve compliance of WHQS for its housing stock by the 2020 deadline. Significant improvements in performance have been realised in the last 12 months aided by a procurement process (Dynamic Purchasing System) which has been initiated to establish a new framework for external and internal works to act as a general contingency. There are some concerns in relation to contracts which include leasehold properties as these are incurring significant delays due to the need to follow legal consultation processes and subsequent challenges from leaseholders. This situation is currently being closely monitored and has been raised with WG who advise that other authorities have encountered similar problems. A significant percentage of work to the sheltered housing schemes is being undertaken by the in-house workforce. The programme is progressing with works on track to be completed by the 2020 deadline, however due to work content and asbestos issues, three schemes will require full decants which may delay completion until post 2020, but discussions with WG indicate that these can be categorised as acceptable fails. Performance levels for Qtr 1 are:- Internal compliance 88.67%, external compliance Projected expenditure against the budget continues to be monitored. 2018/19 saw the highest level of capital spend since the inception of the programme at £51.8m, of which £49.5m directly related to WHQS works. This information has been projected forward and used to review our delivery programme up to 2020, which demonstrates that this is still deliverable within the timescales and remains affordable at £260m, although borrowing has been required for the first time to support the 2018/19 programme. The spend on WHQS for Qtr 1 this year is some £6.7m. This is lower than the same quarter the previous year but is as a result of contracts pending award and the issues with contractor continuity which are currently being addressed. £7.3m is available from WG as a contribution to the programme in the form of a MRA (Major Repairs Allowance) grant. which will be fully claimed by the end of Qtr 2. While there are risks that require appropriate mitigation measures there is an increased momentum and more confidence about the 2020 deadline which has been supported by the recent WAO review. Current borrowing projections indicate that £57m is required to finalise the programme which is below the level of borrowing approved by Full Council.	Medium	Yes	Medium

ICLIP Key:
Involving a diversity of the population in the decisions that affect them;
Working with others in a **collaborative** way to find shared sustainable solutions;
Looking to the long term so that we do not compromise the ability of future generations to meet their own needs;
Taking an integrated approach so that public bodies look at all the well-being goals in deciding on their well-being objectives;
Understanding the root causes of issues to **prevent** them from occurring.

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AUDIT COMMITTEE – 15TH OCTOBER 2019

**SUBJECT: PROPOSED REPORTING PROTOCOL IN RESPECT OF COMPLETED
AUDIT REVIEWS AND RECOMMENDATION TRACKING**

REPORT BY: INTERNAL AUDIT MANAGER

1. PURPOSE OF REPORT

1.1 To present the Audit Committee with an amended process that will better allow the Committee to support the work of internal audit services and focus on the higher risk issues that need to be addressed.

2. SUMMARY

2.1 At its meeting on the 16th October 2018 the Audit Committee endorsed a new protocol in respect of the reporting of completed audit reviews. However, the introduction of the protocol has identified some operational issues that require fine tuning to ensure that the intended outcomes from the auditing process are achieved and Audit Committee time is focussed on the right areas.

2.2 The timing of invitations to Heads of Service/Headteachers to attend the Audit Committee must allow time for the agreed action plan to run its course and for an audit follow up assessment to be made.

2.3 A rolling monitoring report will develop which will aid the Audit Committee focus on those service areas that most need attention.

3. RECOMMENDATIONS

3.1 The Audit Committee agree the revised protocol as set out in this report.

4. REASONS FOR THE RECOMMENDATIONS

4.1 Internal Audit Services has always had a facility, via the Section 151 Officer, to request officers /Heads of Service to attend the Audit Committee to answer questions or provide explanations. The threat of having to attend Audit Committee has generally over the years been enough to achieve satisfactory outcomes. However this revised process is intended to bring several strands of audit reporting together to address a number of recommendations made by the external auditor.

5. THE REPORT

5.1 Over the past few years the annual internal audit outturn report and the half yearly progress reports have been evolving. Both the content and the presentation style has been developing to provide the Audit Committee with more timely and more focused information.

5.2 This development process has come about from recommendations made by the external auditors and the requirements of the Public Sector Internal Audit Standards.

- 5.3 It is also hoped that the recently procured new audit management software (MK insights) will be a major component of the future reporting process and enable easier and speedier reports to be generated.
- 5.4 A process was agreed in October 2018 by the Audit Committee whereby reports issued with the rating of In need of improvement or inadequate would be reported to the Committee and that relevant Heads of Service / Headteachers would be invited to attend the relevant Committee so that explanations or clarifications can be provided to members.
- 5.5 At the January 2019 Audit Committee meeting two audit reports were presented and the April 2019 meeting saw one report presented.
- 5.6 Having reflected on this approach following the April meeting and having discussed its merits with the external auditors it is felt that the timings and purpose of the Audit Committee involvement needs to be revisited in order to achieve the overall goal of service improvement and risk reduction.
- 5.7 Moving forward it is intended to report details of audits undertaken in the current period (six monthly/ quarterly), along with risk ratings of individual issues and the overall audit ranking for the audit and this will be shown in a tabular format.
- 5.8 The audits undertaken in previous periods that have actions outstanding will also be shown with the progress made since the issue of the audit report and details of any outstanding issues. Over time this will create a rolling monitoring tool to ensure all high risk recommendations are cleared.
- 5.9 It is considered appropriate to give auditees time to address their actions, and this will vary depending on the agreed action plan (but in most cases this will be no more than six months). However, where insufficient progress has been made within the agreed timescale, and significant issues remain, the Audit Committee may wish to ask for explanations from Heads of Service/Headteachers who will be invited to attend the next Committee meeting.
- 5.10 The progress reporting will address a number of the external auditor's recommendations and provide the Audit Committee with information around what work has been completed by internal audit and how things are progressing with the implementation of corrective actions. The brief details in respect of high risk findings will provide the Committee with an insight into the types and frequency of issues being identified during audit reviews.

Conclusion

- 5.11 A formal agreed procedure will provide improved focus for the Audit Committee and better support to internal audit services.

6. ASSUMPTIONS

- 6.1 No assumptions were made in this report.

7. LINKS TO RELEVANT COUNCIL POLICIES

- 7.1 Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered.

8. WELL-BEING OF FUTURE GENERATIONS

- 8.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met: -
- A prosperous Wales.
 - A resilient Wales.
 - A healthier Wales.

- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

9. EQUALITIES IMPLICATIONS

9.1 There are no equalities implications.

10. FINANCIAL IMPLICATIONS

10.1 There are no direct financial implications arising from this report.

11. PERSONNEL IMPLICATIONS

11.1 There are no personnel implications.

12. CONSULTATIONS

12.1 Any comments received from consultees have been included within the report.

13. STATUTORY POWER

13.1 Local Government Act 2000

Author: R Harris, Internal Audit Manager

Consultees: R Edmunds, Corporate Director for Education & Corporate Services
S Harris, Interim Head of Business Improvement Services & Acting S151 Officer

Background papers: Audit Committee (16th October 2018) - Internal Audit Services Revised Methodology for 4 tier Audit Opinions, Risk Ratings and Assurance.

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AUDIT COMMITTEE – 15TH OCTOBER 2019

SUBJECT: INTERNAL AUDIT SERVICES - MID YEAR PROGRESS REPORT

REPORT BY: INTERNAL AUDIT MANAGER

1. PURPOSE OF REPORT

- 1.1 To provide the Audit Committee with an overview of the work undertaken by Internal Audit Services in the first six months of the current financial year and to start the trial of the recommendation tracking process to enable the Committee to follow the successful clear down of outstanding recommendations.

2. SUMMARY

- 2.1 As part of the annual external audit of the financial statements for 2017-18 a recommendation was made that information presented to the Audit Committee in respect of audit reports issued by Internal Audit Services be presented in a tabular format and the rating given to each review and the number of recommendations made should be included.
- 2.2 For those reports that contain high risk recommendations a brief indication of the issues identified will also be provided to assist members understanding and provide context.
- 2.3 The updated format will form the basis of future progress reports to the Committee and will be used to enable the Committee to track the implementation of recommendations over time.

3. RECOMMENDATIONS

- 3.1 The Audit Committee note the content of this report.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure that the Audit Committee is aware of the work undertaken by Internal Audit Services in the first half of the year and understands the types of issues that are being identified and the level of assurance it can take from the ongoing audit process that is in place to ensure that agreed recommendations are appropriately implemented.

5. THE REPORT

- 5.1 Over the past few years the Audit Committee has been provided with performance data in a number of various formats mainly based around a mix of numerical data and narrative descriptive information directing focus onto those areas or issues that warrant further explanation or contextual information.
- 5.2 Previous content was intentionally kept at an appropriate level to provide the Committee with a knowledge of the coverage undertaken and an insight into the assurances that could be taken from the ongoing/rolling work that the internal audit processes are designed to achieve.
- 5.3 This approach was an attempt to avoid the Committee becoming embroiled in a large quantity of day to day operational detail thus enabling the Committee to keep its attention and focus on a more strategic approach as required by the CIPFA Audit Committee guidelines.

- 5.4 As part of the annual external audit of the financial statements for 2017-18 a recommendation was made that information periodically presented to the Audit Committee in respect of audit reports issued by Internal Audit Services be presented in a tabular format and the rating given to each review and the number of recommendations made should be included.
- 5.5 Table 1 presented below will form the basis of ongoing performance reporting and will have a clear focus on the issues being identified and a tracking element that will roll forward so that as improvement actions are implemented the Committee can take assurance that identified issues are being dealt with appropriately.
- 5.6 Where an audit review has identified a number of high risk issues, which will be shown within the table, a brief narrative will be provided underneath the table giving an indication of the issues identified. This is intended to improve the Committee's understanding of the risks identified and their relevance in terms of the whole Authority.

5.7 **Table 1**

Audit Review Title	Rating	Number of Recommendations			Review Quarter
		High Risk	Medium Risk	Merits Attention	
Current period					
Bryn Awel Primary	In need of improvement	7	7	0	4
YG Gilfach Fargoed	In need of improvement	2	3	0	4
Tourist Information Centre	In need of improvement	1	1	0	3/4
Brooklands Day Centre	In need of improvement	1	5	1	3/4
Brondeg Day Centre	In need of improvement	2	4	0	4
Hendredenny Primary	Effective with opportunity for improvement	0	8	0	N/A
Cwrt Rawlin Primary	Effective with opportunity for improvement	0	8	2	N/A
Bargoed Library	Effective with opportunity for improvement	0	2	4	N/A
Machen Primary	Effective with opportunity for improvement	0	13	0	N/A
YG Trelyn	Effective with opportunity for improvement	0	6	1	N/A
Rhydri Primary	In need of improvement	4	6	1	4
Cwmfelinfach Primary	Effective with opportunity for improvement	0	7	0	N/A
Leavers and IT processes	Effective with opportunity for improvement.	0	8	1	N/A
Education Improvement Grant (£6m)	Unqualified certification	N/A	N/A	N/A	N/A
Pupil Deprivation Grant	Unqualified certification	N/A	N/A	N/A	N/A
Supporting People Finance (£6m)	Unqualified certification	N/A	N/A	N/A	N/A
Supporting People Outcomes	Unqualified certification	N/A	N/A	N/A	N/A
CCTV (Public Open Space) Scheme 2019-20	Effective/ Effective with Opportunity for improvement	0	10	5	N/A
Youth Service Grant	Unqualified certification	N/A	N/A	N/A	N/A

- 5.8 The high risk areas identified in the current period for each individual audit are:-

- 5.8.1 Bryn Awel Primary
- School meals – data/arrears/meals ordered & served
 - Contracts – controlling leases
 - Budget – shortfall
 - Private Fund – no reconciliation/submission

- 5.8.2 YG Gilfach Fargoed
- Budget – shortfall
 - GDPR – training/cctv policy

- 5.8.3 Tourist Information Centre
- PCI DSS Compliance

- 5.8.4 Brooklands Day Centre
- GDPR – training/privacy notices

- 5.8.5 Brondeg Day Centre
- GDPR – training/privacy notices

- 5.8.6 Rhydri Primary
- Private Fund - no reconciliation/submission
 - School meals – arrears/staff meals not charged
 - Duplicate payments

5.9 Table 2 will provide the Audit Committee with an updated position for audit reviews completed and reported in previous periods. Showing progress made in the implementation of agreed recommendations it will enable the Committee to see that satisfactory progress is being made and also review those areas where additional focus may be required.

Table 2

Outstanding recommendations from previous periods		
Audit Review Title	Rating	Review Quarter
Islwyn High	Inadequate	3
Park Primary	In need of improvement	3/4
Risca Primary	In need of improvement	3
White Rose Primary	In need of improvement	4
YG Bro Allta	In need of improvement	4
Llanfabon Infants	In need of improvement	3
Gilfach Fargoed Primary	In need of improvement	3/4
NFI payroll	In need of improvement	4
PCI Compliance	In need of improvement	3
WHQS data Compliance	In need of improvement	4
Treasury Mgt	In need of improvement	4
School transport - Taxis	Unsatisfactory/ In need of improvement	4
Section 17 payments Compliance	In need of improvement	4

5.10 Table 3 will provide the Committee with an indication of some of the topics currently being worked on by internal audit staff and will in future periods be reported within Table 1 once completed.

Table 3

Audit reviews started but ongoing at end of period	Status
Payroll Starters	In progress
Payroll Leavers	In progress
Compliance with Flexible Working Policy	In progress
Social Services - External Providers	In progress
Customer and Digital Services – cash handling processes	Draft report with management
Homelessness	Draft report with management
PCI Compliance	In progress
NFI 2018/2020	In progress
Ystrad Mynach Primary	Draft report with management
Glyngae Primary	Draft report with management
Cwmaber Junior	Draft report with management
Blackberry Catering	In progress
Winding House	In progress
Pontllanfraith Primary	In progress

5.11 Other significant areas of audit activity during the period.

- 5.11.1 Review and following up work brought forward from the previous period.
- 5.11.2 Full time secondment of one member of staff to the housing department to assist with the data validation exercise being undertaken as a result of previous internal audit review.
- 5.11.3 Ongoing work in respect of two special investigations that were started in the previous period.
- 5.11.4 Implementation work required to develop and migrate the Audit systems, data and processes into the new digital platform, Pentana MK insights. A significant amount of staff time has been spent on this in order to secure the anticipated benefits of the system.
- 5.11.5 Information Governance Steward work, supporting the Data Protection Officer in promoting and embedding good practice in relation to information governance.

Conclusion

- 5.12 Over the coming months the revised format of reporting will be under constant review to ensure it is achieving its intended purpose and that the content, style and clarity is suitable for the Audit Committee.

6. ASSUMPTIONS

- 6.1 No assumptions were made in this report.

7. LINKS TO RELEVANT COUNCIL POLICIES

- 7.1 Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered.

8. WELL-BEING OF FUTURE GENERATIONS

- 8.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

9. EQUALITIES IMPLICATIONS

9.1 There are no equalities implications.

10. FINANCIAL IMPLICATIONS

10.1 There are no direct financial implications arising from this report.

11. PERSONNEL IMPLICATIONS

11.1 There are no personnel implications.

12. CONSULTATIONS

12.1 Any comments received from consultees have been included within the report.

13. STATUTORY POWER

13.1 Local Government Act 2000

Author: R Harris, Internal Audit Manager

Consultees: R Edmunds, Corporate Director for Education & Corporate Services
S Harris, Interim Head of Business Improvement Services & Acting S151 Officer

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AUDIT COMMITTEE – 15TH OCTOBER 2019

SUBJECT: 2016/18 NATIONAL FRAUD INITIATIVE UPDATE

REPORT BY: INTERNAL AUDIT MANAGER

1. PURPOSE OF REPORT

- 1.1 To inform the members of the Audit Committee of the work carried out by Internal Audit staff on the 2016/18 National Fraud Initiative (NFI).

2. SUMMARY

- 2.1 The results of the 2016/18 NFI exercise were published by the Wales Audit Office in October 2018 and the full document is available for members on the members' portal.
- 2.2 The latest biennial national counter fraud exercise has helped Welsh Public bodies identify £5.4 million of fraud and erroneous payments.
- 2.3 In respect of the work undertaken for Caerphilly CBC, excluding Council tax Single person discount matches there were 6242 individual data matches reported. The exercise returned circa 100 match reports. Following investigations by Internal Audit an amount of £92,684 was identified as fraud or error and action is being taken to recover these sums. £78,472 was already recovered by the time the exercise was concluded and work is continuing in respect of the remaining amount.
- 2.4 The process also matches other data such as concessionary bus passes, blue badges and residents parking permits where there is an indirect effect on public funds, so the results reported for CCBC do not include an estimation of these values.
- 2.5 A different process is now employed within Council Tax to investigate Single Persons Discount issues. This data is now uploaded annually, and an annual checking and reporting process is carried out. The most economically advantageous way of carrying out this work by Caerphilly is to contract this work to a third party who work with Council Tax staff to identify cases where a single person discount is being claimed incorrectly or fraudulently. In 2016, the NFI exercise resulted in 263 claims worth £68,047 being cancelled; in 2017, 202 claims worth £39,729 were cancelled, this generates additional Council Tax revenue that would otherwise be lost.
- 2.6 Due to the separate nature of these 2 NFI matching processes this figure is reported separately in this report.
- 2.7 The results from the NFI exercises that have been carried out, were identified by the Welsh Government Public Accounts Committee who commissioned the WAO to undertake a special review, which CCBC also participated in, and the results have recently been published. This publication has been reported separately for members' information.

3. RECOMMENDATIONS

- 3.1 The Audit Committee note this report.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 For the Audit Committee to be aware of the proactive work undertaken to identify fraud and error.

5. THE REPORT

- 5.1 Since 1996, every two years, The National Fraud Initiative matches data across Public Sector organisations and systems in the UK in order to help public bodies identify potentially fraudulent claims, payment errors and other erroneous payments or frauds. This involves all Local Authorities, Local Authority Pension Funds and other Public Sector bodies and employers although their participation is not mandatory (e.g. RSLs, LHBs, Police and Fire Authorities etc.) together with national organisations e.g. DWP and Home Office uploading various data to a national database from which extracted (matched) data is passed back to the originating authorities for detailed interrogation in order to identify fraud and overpayments.
- 5.2 The results of the 2016/18 exercise were published in October 2018, and it stated that this was the most successful exercise to date uncovering over £5.4m of fraud and overpayments across a wide range of public services in Wales.
- 5.3 The published report contains case studies in respect of the findings of Caerphilly's approach to the investigation of data matches as Caerphilly's approach is regarded as good practice. One of these was also highlighted in the NFI quarterly bulletins which are circulated across all participants in the UK
- 5.4 To oversee this work the Cabinet Office requires the Head of Corporate Finance in each participating body to nominate a "key contact" who has responsibility for co-ordinating the scheme, ensuring deadlines are met and giving the appropriate access to the secure database to relevant officers to be able to complete the tasks. As the exercise continues to develop and include data sets from a wide range of service areas Internal Audit Services continues to facilitate the successful outcome of the exercise.
- 5.5 The latest exercise included matches from data such as payroll, deceased persons records, Home Office UK Visa and immigration data, student loans, insurance claimants, taxi licenses, personal alcohol licences, blue badges, concessionary travel passes, pension payments, housing tenancies, housing waiting lists, council tax reduction scheme allowances, residents' parking permits and data on residents in private care homes.
- 5.6 Staff in the various service areas or their IT support initially submit data for matching into a secure portal maintained by the cabinet office. All GDPR requirements were complied with to ensure data is secure. Caerphilly CBC fully complied with the data uploads with all sets of data uploaded to the secure interface by the stipulated deadlines. The data is then matched by the NFI using key unique criteria e.g. name, DOB, NI numbers etc., and the match reports are released usually a few months later.
- 5.7 Internal Audit staff participate by initially controlling and monitoring the data uploads ensuring these are done in line with the NFI requirements and GDPR. The match reports are then released to Internal Audit who liaise with individual service areas to ensure matches are investigated. Internal Audit also undertake the investigative work in relation to a number of data match reports relating to high risk and financial data. The results of the investigative work are fed back into the NFI process. Additionally, operational issues identified are reported in internal audit reports if necessary.
- 5.8 It should be noted that the significant amount of initial review work previously undertaken by the Council's Housing Benefit fraud investigation staff has been absorbed by the Housing Benefit administrative staff following the creation of the Single Fraud Investigatory Service. Initial match screening was carried out by Internal Audit Services with all potential benefit

related frauds identified referred via the in house Benefits team to the DWP Fraud Investigation Service. The investigation and outcome of these are not under the Council's control.

- 5.9 GDPR requires all participating bodies to inform their clients and customers that data collected may be used to detect and prevent fraud. This is carried out via privacy notices which have been completed with appropriate texts being inserted to application forms and letters for areas that are covered under the NFI. The privacy notices are also published on the Council's website with a link to the full text contained on the GOV.UK website.
- 5.10 The responsible Internal Audit officer is also required to make a declaration to the NFI that this process has been complied with.
- 5.11 Data matches were released in late January 2017. For Caerphilly CBC the 2016/18 exercise resulted in circa 100 (76 in 2015) separate reports containing matched data for further examination and investigation. This increase is mainly as a result of new data sources such as Council tax reduction scheme payments, Companies House and Housing waiting lists. These additional match reports required additional investigation work compared to prior years.
- 5.12 Due to issues with data quality in previous years it was decided by WAO that Welsh Government Internal Audit would take responsibility for matches relating to concessionary travel as this is now administered centrally. There were approximately 3000 matches reported in 2015 within this data.
- 5.13 The total data matches for Caerphilly CBC numbered 6242 (10197 in 2015) of which 6172 98.9% (99.8% in 2015) had been closed by the time the exercise was concluded.
- 5.14 As at the 31st October 2018 there were 10 frauds (3 in 2015) identified which were under investigation. There were 41 errors (53 in 2015) identified with a total value of £92,684.
- 5.15 A breakdown of these results are as follows;
- Housing benefits- £5,775, 4 of these relate to frauds (non-declaration of income sources, employment or pensions).
 - Council Tax - £20,685, 8 cases of which there was one major contributor, a former employee who had colluded with a partner to avoid full Council tax liability for several years. This has not been classed as a fraud due to the mode of investigation and sanction chosen by the DWP. They have now left the council's employment. There are also CTRS impacts from the cases referred to in relation to Housing Benefits above.
 - Payroll - £1,518, this related to a school based employee where the resignation was not processed in a timely fashion by the school, and as a result appeared on the Council's payroll data as well as the new employers for one month. Recovery action was prompted by the investigation of the match by Internal Audit.
 - Private care home £4,173, this related to a single case where the home continued to charge for a deceased resident. The overpayment was recovered from subsequent payments to this home.
 - Creditor payment errors - £60,534 this included duplicated payments and other payment errors made by council staff.
 - In addition 133 blue badge errors were recorded where deceased residents records had not been updated. No direct cash value has been recorded for these although misuse of blue badges can lead to losses in parking and other public revenues.

These transactions have either been recovered or are in the process of recovery to a total value of £78,472 (£128,093 in 2015) as a result of this data matching exercise. It is likely that had this exercise not been performed these funds would have been permanently lost.

- 5.16 202 council tax single person discounts have been cancelled amounting to £39,729 and this is additional revenue that would otherwise have remained uncollected. It can be seen that these numbers are reducing which is testament to the ongoing effectiveness of this process and the fact it is now an annual exercise.

- 5.17 The Cabinet Office has been working towards developing further additional fraud prevention and detection solutions to complement the biennial NFI cycle and to support Local Authorities and other Public Sector organisations in reducing fraud and errors. Caerphilly is participating in the use of these solutions where considered beneficial
- 5.18 In addition Caerphilly continues to use a duplicate payment identification software tool which works with purchase ledger data to identify potentially erroneous payments in advance of payment and results are encouraging.

Conclusion

- 5.19 Members note the work done by Internal Audit in coordinating and supporting the NFI exercise and the results that have been reported.

6. ASSUMPTIONS

- 6.1 No assumptions were made in respect of this report.

7. LINKS TO RELEVANT COUNCIL POLICIES

- 7.1 To ensure that the Council's resources are used to provide value for money.

8. WELL-BEING OF FUTURE GENERATIONS

- 8.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met: -

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- A healthier Wales.
- A more equal Wales.
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- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

9. EQUALITIES IMPLICATIONS

- 9.1 There are no equalities implications.

10. FINANCIAL IMPLICATIONS

- 10.1 An amount of £39,729 relating to Council tax single persons discounts and a sum of £92,684 in respect of other frauds and errors has been identified via this exercise and action is being taken to recover these sums. Of the £92,684, £78,472 (85%) has already been recovered, and recovery is ongoing in other cases.
- 10.2 The results of this exercise represents additional revenue that may otherwise have been permanently lost to the council.
- 10.3 Other indirect costs may be reduced or avoided due to other match investigations performed, but these cannot be directly quantified.

11. PERSONNEL IMPLICATIONS

- 11.1 There are no personnel implications as this work is built into the Internal Audit plan, although there may be some workload resource implications where enquiries are required to be performed within other service areas.

12. CONSULTATIONS

12.1 Any comments received from consultees have been included within the report.

13. STATUTORY POWER

13.1 Local Government Act 2000

Author: R Harris, Internal Audit Manager
D Gronow Internal Audit Group Manager

Consultees: R Edmunds, Corporate Director for Education & Corporate Services
S Harris, Interim Head of Business Improvement Services & Acting S151 Officer

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AUDIT COMMITTEE – 15TH OCTOBER 2019

SUBJECT: COUNTER FRAUD ARRANGEMENTS IN THE WELSH PUBLIC SECTOR – PUBLICATION BY THE WALES AUDIT OFFICE

REPORT BY: INTERNAL AUDIT MANAGER

1. PURPOSE OF REPORT

- 1.1 To make members of the Audit Committee aware of a recent publication by the Wales Audit Office.

2. SUMMARY

- 2.1 The publication provides an overview of the counter-fraud landscape across the Welsh public sector and follows the publication of the 2018 National Fraud Initiative report which provided some insight into aspects of public sector fraud in Wales but does not provide a robust evaluation of the underlying arrangements for prevention and detection. This latest publication therefore describes the allocation of resources, collaboration between organisations, scrutiny arrangements and overall impact.

3. RECOMMENDATIONS

- 3.1 The Audit Committee note this report.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure that members of the Audit Committee have an up to date view on the current counter fraud position in Wales.

5. THE REPORT

- 5.1 The Welsh Audit Office undertook a review of Public Sector Counter Fraud arrangements at the request of the WG Public Accounts Committee who had taken an interest in this issue following the 2018 FI Data Marching report. This involved discussions with a sample of Public Sector Bodies including Local Authorities, NHS and Central Government. The report was published in June 2019 and titled Counter-Fraud Arrangements in the Welsh Public Sector - An overview for the Public Accounts Committee. The report is attached as Appendix 1.
- 5.2 Fraud is prevalent across all sectors including the public sector and is generally believed to be significantly under-reported. There is often a reluctance for organisations to identify suspicious activity as fraudulent and there is sometimes a mistaken perception that reporting fraud casts the organisation involved in an unfavourable light.
- 5.3 Using figures from a recent Cabinet Office report which indicate an upper and lower range for likely losses in government spend of between 0.5% and 5% of expenditure, the document suggests that for Welsh expenditure of around £20 billion losses to fraud and error may be anywhere between £100 million and £1 billion per annum.
- 5.4 Precisely how much the public sector loses to fraud is unknown and although these headline estimates should be treated with considerable caution, they do give an indication of the magnitude of the potential risks from fraud facing the Welsh public sector.

- 5.5 The publication is divided into two main sections Part 1 outlines the impact and scale of fraud and Part 2 goes through the various elements of the Welsh public sector providing an overview of the counter-fraud arrangements within each area.
- 5.6 Part 1 of the document answers a number of questions around what is fraud, what types of fraud exist, who, why and how do people commit fraud, how is fraud detected and how are losses recovered and additionally how are frauds evolving.
- 5.7 Part 2 goes on to look at counter fraud arrangements within the different areas of the public sector in Wales.
- 5.8 Caerphilly was one of the eight councils that contributed to the review and an element of work undertaken as part of the 16/18 National Fraud Initiative has been included as a case study promoting the advantages to be gained from participating in the exercise.

Conclusion

- 5.9 Fraud risk continues to be a major issue which is constantly present and continually evolving, however it is felt there is no overall co-ordinated guidance or approach for Local Government in Wales and neither are there any standards in place for the reporting of it.

6. ASSUMPTIONS

- 6.1 No assumptions were made in this report.

7. LINKS TO RELEVANT COUNCIL POLICIES

- 7.1 Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered.

8. WELL-BEING OF FUTURE GENERATIONS

- 8.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met: -

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- A globally responsible Wales.

9. EQUALITIES IMPLICATIONS

- 9.1 There are no equalities implications.

10. FINANCIAL IMPLICATIONS

- 10.1 There are no direct financial implications arising from this report.

11. PERSONNEL IMPLICATIONS

- 11.1 There are no personnel implications.

12. CONSULTATIONS

12.1 Any comments received from consultees have been included within the report.

13. STATUTORY POWER

13.1 Local Government Act 2000

Author: R Harris, Internal Audit Manager

Consultees: R Edmunds, Corporate Director for Education & Corporate Services
S Harris, Interim Head of Business Improvement Services & Acting S151 Officer

Appendix 1: Counter Fraud Arrangements in the Welsh Public Sector – Publication by The Wales Audit Office.

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Appendix 1

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Counter-Fraud Arrangements in the Welsh Public Sector

An Overview for the Public Accounts Committee



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance with the Government of Wales Act 1998 and 2006.

The Wales Audit Office team that assisted me in the preparation of this report comprised Ian Hughes, Rachel Davies and Christine Nash under the direction of Mike Usher.

Adrian Crompton
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

The Auditor General is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Introduction

- 1 Fraud is prevalent across all sectors including the public sector. Every pound stolen from the public sector means that there is less to spend on key services such as health, education and social services. At a time of austerity, it is more important than ever for all public bodies in Wales to seek to minimise the risk of losses through fraud.
- 2 Fraud in general is believed to be significantly under-reported. There is often a reluctance for organisations to identify suspicious activity as fraudulent and there is sometimes a mistaken perception that reporting fraud casts the organisation involved in an unfavourable light.
- 3 The Association of Certified Fraud Examiners has estimated that on average global organisations lose 5% of their annual revenues to fraud. The National Crime Survey for England and Wales estimates that in 2017-18, 3.47 million fraud offences were committed across England and Wales. Most of these offences were not reported.
- 4 When fraud is reported to the authorities the response can be disappointing. A report published by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services in April 2019 concludes that 'outside those organisations that have a specific national-level responsibility for fraud, it is rarely seen as a priority'.
- 5 Precisely how much the public sector loses to fraud is unknown. In March 2012, the National Fraud Authority estimated public sector fraud losses to be £20.3 billion (excluding taxation fraud).
- 6 Unfortunately, there is no breakdown of any estimated fraud losses to the devolved administrations in the UK. However, a recent report by the Cabinet Office reveals an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure¹. Applying those estimates to expenditure in Wales of around £20 billion would suggest that losses to fraud and error may be anywhere between £100 million and £1 billion per annum.
- 7 Although these headline estimates should be treated with considerable caution, they do give an indication of the magnitude of the potential risks from fraud facing the Welsh public sector. Organisations can mitigate against these risks by having the right organisational culture supported by effective counter-fraud arrangements.
- 8 The ways in which fraud is committed are constantly evolving as society and technology changes. Fraud does not respect geographical or other boundaries. It is therefore important that collaboration and the sharing of intelligence and good practice takes place between public, private and third-sector bodies across the UK and internationally.

1 Cabinet Office Cross Government Fraud Landscape Report 2018

- 9 This paper provides an overview for the National Assembly's Public Accounts Committee of the counter-fraud landscape across the Welsh public sector. The Committee has expressed an interest in this topic following the recent publication of the 2018 National Fraud Initiative report, which provides some insight into aspects of public sector fraud in Wales but does not provide a robust evaluation of the underlying arrangements for prevention and detection. This paper therefore describes the allocation of resources, collaboration between organisations, scrutiny arrangements and overall impact. Details of our audit methods are set out in [Appendix 1](#).
- 10 The paper does not examine the scope or effectiveness of arrangements at a local level. However, the Auditor General, subject to further consultation with the Public Accounts Committee, is minded to undertake a further, more detailed review of those arrangements across The Welsh Government and its sponsored bodies, NHS Wales and Local Government in Wales. This will provide a fuller picture of how the risks of fraud are being identified, evaluated and mitigated across the Welsh public sector. This work is expected to take place over the next 18 months.

Part 1 – The impact and scale of fraud

What is fraud?

- 1.1 The term 'fraud' typically describes activities such as theft, corruption, money laundering, conspiracy, bribery and extortion. The UK Fraud Act 2006 sets out three ways in which the crime can be committed:

Exhibit 1: three ways in which the crime can be committed according to the UK Fraud Act 2006



- 1.2 In each case a defendant's conduct must be dishonest with an intention to make a gain or to cause a loss to another party.
- 1.3 Fraud exists across all sectors, including the public sector. It poses a significant risk to public finances and damages the reputation of public bodies. Fraudsters are often well-resourced, innovative and constantly seeking to exploit weaknesses in systems and controls. Fraudsters do not respect geographical or other boundaries. Fraud is not a victimless crime. Every pound stolen from the public sector means that there is less to spend on key services such as health, education and social services, and it is often the vulnerable in society who suffer.
- 1.4 At a time of austerity, it is more important than ever for public bodies to ensure that precious resources are not lost to fraud.

What is the cost of fraud?

- 1.5 The Association of Certified Fraud Examiners (ACFE) estimates that organisations lose 5% of their annual revenues to fraud. Extrapolated worldwide, this yields an annual economic loss of £60 trillion². The ACFE recognises that quantifying losses arising from fraud is an incredibly difficult task. No one knows the amount of fraud that goes undetected or unreported. Even for those frauds that do come to light, the full amount of loss is not always known.
- 1.6 A recent report by the Cabinet Office reveals an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure³. These estimates are consistent with the findings of the ACFE above.
- 1.7 The UK government reports that the estimated fraud and error loss, outside of the tax and welfare system, cost between £2.7 billion and £20.3 billion in 2016-17³. The report also states that the detected fraud and error loss in UK central government was £191 million in 2016-17 (£105 million in 2015-16). This supports the assertion that reported losses from fraud in the public sector are just the ‘tip of an iceberg’.
- 1.8 Unfortunately, there is no breakdown of the above estimate to the devolved administrations in the UK. Applying the Cabinet Office range to annual devolved expenditure in Wales of around £20 billion gives a possible estimated value of losses to fraud and error in the region of £100 million to £1 billion per annum. The detail of how we have arrived at this estimate is set out in [Appendix 2](#).
- 1.9 Various analysts and commentators report that the level of reported fraud is increasing. The most recent KPMG Fraud Barometer⁴ reveals an increase of 78% in the number of fraud cases reaching UK courts in 2018. Over the same time in Wales, the volume of fraud cases rose by 150% with an increasing number of employee frauds. However, it is difficult to determine from the research whether more fraud is happening or whether public bodies are better at detecting it.
- 1.10 These headline figures should be treated with caution. Nevertheless, they do indicate the magnitude of the risk from fraud facing the Welsh public sector.

2 Report to the Nations, 2018 Global Study on Occupational Fraud and Abuse, Association of Fraud Examiners

3 Cabinet Office Cross Government Fraud Landscape Report 2018

4 KPMG Fraud Barometer 2018 - A snapshot of Fraud in the UK

What are the types of fraud and how are they detected?

1.11 There are several types of fraud common in the public sector, as highlighted in **Exhibit 2**. Their perpetrators can come from any level within the organisation as well as from the outside.

Exhibit 2: the main types of fraud in the public sector



Expenses Fraud – involving reimbursement of claims for fictitious expenses eg a travel expense for travel that did not happen or for a personal expense claimed to be for business.



Procurement Fraud – the purchase of goods and services or commissioned construction projects eg price fixing between suppliers to secure business or submitting false, duplicated or inflated invoices.



Planning Fraud – providing dishonest information on a planning application eg inaccurately describing the proposed development.



Accounting Fraud – the intentional manipulation of the financial statements eg overstating assets or not recording liabilities.



Benefits Fraud – providing false information regarding a benefit claim eg failing to disclose that a partner resides at the property or not disclosing all sources of income.



Housing Fraud – providing false information in council or housing association home by application eg not telling the landlord they are renting another council house.



Grant Funding Fraud – an attempt by recipients to deceive the grant paying body about the purpose of the money awarded eg not spending the monies on the purpose for which it was intended.



Payroll Fraud – unauthorised changes to a payroll system eg the creation of a ghost employee or amendments such as changes to salary payments or allowances.



Internal Fraud – fraudulent action by a person internal to an organisation eg theft of assets.



Cyber Crime – frauds committed using networks and computers eg hacking or phishing.



Sector-specific Fraud – including Dental fraud upon the NHS, Blue Badge fraud upon Local Government and tax fraud upon the Welsh Revenue Authority.

Source: Wales Audit Office

- 1.12 The longer a fraud goes undetected the larger its scale and potential implications. The ACFE's most recent study found the median length of a fraud was 16 months. It is therefore important that organisations prevent fraud happening in the first place and to detect fraud as soon as possible. The most successful means of detecting fraud are:
- tip offs (either internal or external whistle-blowers);
 - internal audit; and
 - internal controls, including management review.
- 1.13 It will always be preferable to prevent a fraud, rather than waiting for one to be discovered. Fraud investigations are often complex and time consuming and there is no guarantee of a successful prosecution. This means that the costs associated with investigations are often higher than the amounts recovered. Fraud prevention can reduce the loss faced by organisations both in terms of time and cost by stopping the fraud before it has occurred.
- 1.14 Organisations can mitigate against the risk of fraud by having the right organisational culture supported by effective counter-fraud arrangements. Although organisations need good whistleblowing arrangements, it is also important to have proactive measures in place eg fraud proofing at system design stage, comprehensive internal and external due diligence arrangements and intelligence sharing. Key elements of effective counter-fraud arrangements are set out in [Appendix 3](#).

How can losses from fraud be recovered?

- 1.15 Often recovery does not require the use of formal legal powers. When fraudsters are caught, they will often repay the money on request hoping to avoid heavier sentencing. This is often the case in benefit fraud. Monies can also be repaid through deductions from ongoing benefit payments, where applicable.
- 1.16 Authorities in the UK, including the Crown Prosecution Service (CPS), have powers to seek and confiscate the proceeds of crime, including losses arising from fraud. The CPS has a specialist unit, the CPS Proceeds of Crime Unit, which is dedicated to the confiscation or civil recovery of the proceeds of crime in the UK.
- 1.17 The legal and administrative framework for recovering the proceeds of crime is complex⁵ but there are three main ways in which the proceeds can be recovered as summarised in [Exhibit 3](#).

Exhibit 3: the main ways in which proceeds of crime are recovered

Restraint Orders	A restraint order is obtained to preserve assets until a confiscation order is paid in full. It can be obtained from the Crown Court at any time from the start of an investigation. A restraint order can also be obtained to preserve assets for reconsideration applications and when obtaining confiscation orders against absconded defendants.
Confiscation Orders	A confiscation order is an order of the Crown Court which requires a convicted defendant to pay a sum of money to HM Courts and Tribunal Service.
Civil Recovery	The proceeds of crime can be recovered in civil proceedings in the High Court against property which can be shown to be the proceeds of crime.

Source: Wales Audit Office

- 1.18 In the year ending 31 March 2018, £185 million of criminal proceeds were confiscated in the UK representing an 8% increase compared with the year ending 31 March 2013 (£171 million)⁶.
- 1.19 The recovery of the proceeds of crime, including losses from fraud, is largely dependent on the effective operation of law enforcement authorities, including local police forces. A report published by Her Majesty’s Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) in April 2019⁷ concludes that ‘outside those organisations that have a specific national-level responsibility for fraud, it is rarely seen as a priority’. The report also concludes that many fraud victims are not receiving the level of service they deserve. HMICFRS has made a number of recommendations to address its concerns.

6 Asset recovery statistical bulletin 2012-13 to 2017-18, Criminal Finances Team, Home Office

7 [Fraud: Time to Choose – An inspection of the police response to fraud](#)

Who commits fraud?

1.20 Fraud is committed by a range of individuals both internal and external to an organisation as shown in [Exhibit 4](#).

Exhibit 4: the most common perpetrators of fraud

- Employees
- Service Users
- Suppliers
- Contractors
- Sub-contractors
- Benefit recipients
- Opportunist third parties

Source: Wales Audit Office

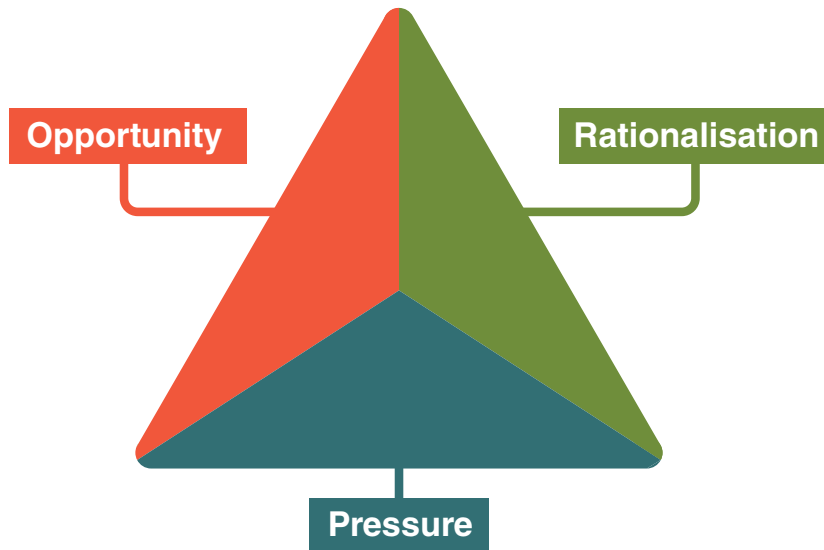
Why do people commit fraud?

1.21 There are many reasons why individuals commit fraud and there is no 'one size fits all' explanation. The Fraud Triangle⁸ is a model which helps explain the circumstances within which **internal fraud** has a greater likelihood of taking place. Internal Fraud is carried out by individuals internal to an organisation eg employees. [Exhibit 5](#) illustrates the Fraud Triangle.

⁸ The Fraud Triangle was developed in the 1950s by Donald Cressey and has been referred to widely ever since.

Exhibit 5: the Fraud Triangle helps explain the circumstances within which fraud has a greater likelihood of taking place

The fraud triangle



Opportunity

Opportunities whereby the individual can secure a way out of their predicament. Examples include weak or absent controls either within their employer, or a third party they can interact with.

Rationalisation

The individual needs to be able to rationalise their actions as understandable or acceptable under the circumstances. Examples include the perceived need to take care of family or the intention to repay amounts stolen in the future.

Pressure

Pressure on the perpetrator which they are unable to resolve through ethical means and a motivation to act on this pressure. Examples include personal debt problems, risk of job loss or a feeling of being overworked and underpaid.

Source: The Fraud Triangle - Donald Cressey

1.22 Although the Fraud Triangle applies to internal fraud its theory can also in part be applied to **external fraud**. External fraud is carried out by third parties eg individuals, businesses or organised crime groups. The motivation in these cases can be sheer greed or the desire to finance a cause eg terrorism. The common factor in both internal and external fraud is that there must be an opportunity. Opportunity is also the element that is most directly affected by the systems of controls. The key for public bodies is to minimise the fraud opportunity.




1.23 A time of austerity increases the risk of fraud because of greater financial pressures on individuals, often through a combination of pay restraint and increasing costs of living. Such times also increase opportunities for fraud because of lower investment in internal control and heightened grounds of rationalisation, for example by individuals feeling forced into a corner by financial circumstances.

How is fraud committed?

Internal Fraud

1.24 The Association of Certified Fraud Examiners has been tracking occupational (internal) fraud for over two decades. Despite significant technological and cultural advances, it maintains that occupational fraud falls into several time-tested categories, as shown in **Exhibit 6**:

Exhibit 6: the most common ways in which fraud is committed

Corruption	Asset Misappropriation	Financial Statement Fraud
<ul style="list-style-type: none"> • Conflict of interest • Bribery • Illegal gratuities • Economic extortion 	<ul style="list-style-type: none"> • Cash • Other assets 	<ul style="list-style-type: none"> • Timing differences • Manipulated revenues • Improper asset valuations • Improper disclosures • Overstated liabilities and expenses 

Source: Derived from Association of Fraud Examiners research

1.25 Factors that contribute to the facilitation of fraud are summarised in the KPMG Fraud Barometer and set out in **Exhibit 7**.

Exhibit 7: factors that contribute to the facilitation of internal fraud

- Collusion circumventing good controls 11%
- Reckless dishonesty regardless of controls 21%
- Weak Internal Controls 61%
- Other 7%

Source: KPMG Fraud Barometer

External Fraud

1.26 In cases of external fraud, fraudsters will look at a system or process where they can gain financial reward and assess where there are weaknesses that can be exploited. These weaknesses could be systems or people. Fraudsters will then assess the likelihood of being detected before attempting the fraud. For these reasons it is imperative that public organisations have appropriate internal control environments to improve the likelihood of frauds being detected and to act as a deterrent to fraudsters. **Case Study 1** highlights a recent example of opportunist external fraud attempted against a Welsh council⁹.

Case Study 1: Fraudulent Council Tax bills

A Monmouthshire resident recently reported that she was targeted by fraudsters, who phoned her, claiming to be from the Council, to inform her she was entitled to a Council Tax rebate. The resident reported that the caller was very convincing.

Monmouthshire Trading standards have said that scammers know the full name and address of the people they are calling and have estimated that only 5% of people targeted by this type of fraud actually report it to authorities often because of embarrassment.

Fraudsters refer to the fact that residents should have received a notification of their updated council tax and are entitled to a refund because they have been allocated an incorrect band.

Councils across Wales have been urging residents to be aware of potential fraudsters calling to claim that residents are entitled to a Council Tax rebate. Such calls are used to harvest personal information, including banking details, and can result in personal financial losses.

⁹ www.bbc.co.uk/news/uk-wales-47766983

How are fraud risks evolving?

- 1.27 The fraud landscape is dynamic. Fraudsters adapt and evolve to exploit any available opportunities no matter how unsavoury, as highlighted in [Case Study 2](#).

Case Study 2: prosecutions arising in the aftermath of the Grenfell Fire Tragedy

The June 2017 Grenfell Tower fire tragedy in London provided opportunities for fraudsters. Some individuals submitted false claims for rehoming and support despite having never lived in Grenfell Tower.

A council finance manager admitted in court to the defrauding of around £60,000 from the Grenfell Tower fund. The money was intended for victims of the fire. The perpetrator was jailed for five and a half years in September 2018.

- 1.28 Fraudsters do not respect geographical boundaries, more so in a digital age. New fraud threats are continually emerging both globally and nationally.
- 1.29 PricewaterhouseCoopers' (PwC) most recent global economic crime survey¹⁰ finds that cyber crime is now the most common fraud for UK businesses, overtaking asset misappropriation for the first time since the survey began. Cyber-attacks are an alternative means to commit traditional frauds such as theft of assets, cash or intellectual property. The PwC survey shows that only 25% of their respondents have a specific cyber security programme in place for their business.
- 1.30 A recent National Audit Office report¹¹ estimates that there were 1.9 million cases of cyber-related fraud in England and Wales for the year ended 30 September 2016. In response to the emerging threat posed by online fraud, the UK government has created a National Cyber Security Centre and published the National Cyber Security Strategy 2016-2021.
- 1.31 The KPMG Fraud Barometer¹² also shows a significant fraud risk arising from Brexit. Criminals can exploit weaknesses in new customs and tax arrangements, grant funding schemes and their accompanying IT systems.

10 PwC Global Economic Crime Survey 2018: UK findings

11 NAO Online Fraud Report June 2017

12 KPMG Barometer 30 years of tracking fraud December 2017

Part 2 – Overview of counter-fraud arrangements within the Welsh public sector

- 2.1 This section sets out an overview of counter-fraud arrangements currently in place within the Welsh public sector. We describe the allocation of resources, collaboration between organisations, scrutiny arrangements and overall impact. We have not tested the scope or effectiveness of these arrangements as part of this audit.
- 2.2 However, the Auditor General is minded to undertake a further review across the Welsh Government, the NHS and Local Government in Wales to get a better picture of how the risk of fraud is identified, evaluated and mitigated. This work is expected to take place over the next 18 months.

Welsh Government

- 2.3 A dedicated Counter Fraud team is responsible for coordinating the counter-fraud arrangements across the Welsh Government. **Exhibit 8** sets out the role and work of the team in more detail.

Exhibit 8: overview of the counter-fraud arrangements within the Welsh Government

<p>Resources</p> 	<ul style="list-style-type: none">• The Welsh Government currently has a Counter Fraud team comprising 1.5 Full-Time Equivalent (FTE) staff.• Prior to 2010 the Welsh Government had no dedicated resource for counter-fraud. In March 2010, the Welsh Government employed a Head of Counter Fraud to coordinate counter-fraud arrangements across the Welsh Government.• In 2015, 14 staff from across the Welsh Government received CIPFA Accredited Counter Fraud Technician training, although most of these have since moved posts and none have provided support to the Counter Fraud team.• In early 2017, the Welsh Government reviewed its counter-fraud resources and redeployed an IT auditor to support the Head of Counter Fraud on a half-time basis.• The Counter Fraud team also receives fraud investigation support from multi-disciplinary teams within the Welsh Government, and the Welsh European Funding Office and from the Internal Audit Service.• In November 2017 a Government Internal Audit Agency report¹³, commissioned by the Permanent Secretary, reviewed the counter-fraud arrangements within the Welsh Government. Although this report concluded that the counter-fraud team was under-resourced, no additional resources have been made available.
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13 Government Internal Audit Agency, Review of Approach to Counter Fraud, November 2017

Work and Collaboration



- The Welsh Government's Counter Fraud team's work is largely reactive in nature, dealing with investigations as they arise. Each fraud case is complex and can take a considerable amount of time to investigate. Under a Memorandum of Understanding with the four Welsh police forces, the Counter Fraud team produces an evidential package before referring a case to the police for further investigation.
- The Counter Fraud team does not have powers under the Proceeds of Crime Act 2002, and so relies on the police to conduct financial investigations and to pursue confiscation and recovery following a successful conviction.
- The Counter Fraud team only undertakes a limited amount of proactive work. The team recognises that more proactive work would be beneficial in helping to prevent and/or detect fraud. However, there are limited resources and so the team has to prioritise its reactive investigation work.
- The Counter Fraud team is responsible for providing training and disseminating information relating to fraud cases to key individuals across the Welsh Government. The team provides ad-hoc workshops across the Welsh Government pan-Wales in response to significant fraud cases.
- Policy departments across the Welsh Government complete fraud risk assessments and submit them to the Counter Fraud team. These assessments identify the key fraud risks for each policy area. The Counter Fraud team reviews these risk assessments to ensure appropriate arrangements are in place to deal with the risks identified.
- New cases of potential fraud cases are referred to the Counter Fraud team through various channels including a dedicated counter-fraud hotline and mailbox, whistleblowing correspondence, the Wales European Funding Office and the Police.
- The Welsh Government is a member of Cifas (see [Appendix 4](#)) and has access to the National Fraud Database. The Counter Fraud team has provided training to around 200 staff across the Welsh Government in the use and analysis of Cifas data to improve the due diligence checks undertaken for grant funding. Around 80 of these staff have access to the Cifas system.
- The Counter Fraud team undertakes several data-matching exercises which seek to proactively identify fraud across the Welsh Government. The team engages with the Wales Audit Office, Cabinet Office, Rent Smart Wales and local authorities in relation to these programmes.
- The Counter Fraud team regularly engages with the Welsh Government's Grants Centre of Excellence to provide advice for new grant projects and training on due diligence.
- The Counter Fraud team also works in collaboration with other agencies including counter-terrorism units, the National Crime Agency, Trading Standards and HMRC. The Head of Counter Fraud is a member of the Government Agency Intelligence Network (GAIN) and is also Deputy Chair of the Wales Fraud Forum.

Scrutiny



- All suspicions of fraud at the Welsh Government are referred to its External Assurance Panel, which meets every six weeks. The Panel is responsible for overseeing and monitoring cases of fraud, and for authorising the Head of Counter Fraud to refer appropriate cases to the police.
- Panel members include the Head of Counter Fraud, the Head of Audit, Assurance & Counter Fraud, the Director of Governance, representatives from the Grants Centre of Excellence and from each operational team across the Welsh Government.
- The Permanent Secretary's Audit and Risk Assurance Committee (ARAC) receives high level information on suspected fraud cases as part of the Internal Audit update on a quarterly basis.
- The Counter Fraud Manager previously reported directly to the ARAC on an ad-hoc basis. These reporting arrangements have recently changed. An update on counter-fraud work is now included as part of the Internal Audit update, at more summarised level than previously reported. The Counter Fraud Manager does not currently provide ARAC with an update on specific cases in progress, although this arrangement is currently under review.

Impact



- The Welsh Government does not collate information on total losses and recoveries. However, the Head of Counter Fraud retains data from convicted cases over the last nine years in respect of losses, recoveries and sentences. In addition, some recoveries are made through claw-back and civil recovery.
- Proceeds of Crime Act investigations after conviction can take three or four years to conclude, and there are three live cases currently.
- Recoveries of losses by the Welsh Government are often difficult where organisations enter administration and assets can be hard to pursue.
- The Counter Fraud team has investigated and identified many cases of fraudulent activity in recent years. [Case Studies 3 and 4](#) provide two notable examples.

Source: Wales Audit Office

Case study 3: Welsh Government Counter Fraud team investigation – Express Motors, 2018

The Express Motors case involved the abuse of the concessionary bus pass scheme in Wales by the company's Directors. They instructed drivers to make additional swipes of bus passes to enhance the number of journeys they could claim for. In doing so the claims submitted to Gwynedd Council were false. The Directors gained personally through the additional monies (£500,000) received from the council.

The investigation, conducted jointly by the Welsh Government Counter Fraud team and North Wales Police, took four years. North Wales Police set a high threshold, that they would only consider abuse if a specific pass was used ten or more times on any one day on ten days or more.

Following completion of the cases, five directors were convicted and sentenced to a total of 29 years imprisonment. Concessionary bus pass usage in Gwynedd dropped by 34%, and by 5% across Wales. The fraud occurred over a lengthy period and the Judge commented that it was almost certain that the entirety of the fraud had not been identified.

Case Study 4: Welsh Government Counter Fraud team investigation – Dragon, 2019

The Dragon case relates to funding made to three associated companies to establish a processing plant in Port Talbot. The plant was intended to produce rag worm for the fishing industry and subsequently become the world's largest supplier of rag worm bait for the industry. Deliverables included building ponds, producing bait, creating jobs and making profit.

However, the defendant failed to carry out his obligations. The venture created only a fraction of the jobs expected, and the monies were used for purposes other than those intended by the Welsh Government.

The Welsh Government's Head of Counter Fraud commenced investigating the Dragon companies in early 2010 when he noticed some suspicious irregularities. His suspicions increased when the MP for Carmarthen West and South Pembrokeshire raised concerns he had received from his constituents. These concerns focussed on the lack of progress and jobs created despite extensive funding from the Welsh Government.

The investigation identified, among many other things, that the ponds were claimed to be a specialist build undertaken by the only company with appropriate expertise. In fact, this company was owned and run by family members and the pond design and construction required no specialist expertise. It also found that the project claims included a fictitious invoice for £0.4 million and that inaccurate information had been provided for monitoring purposes.

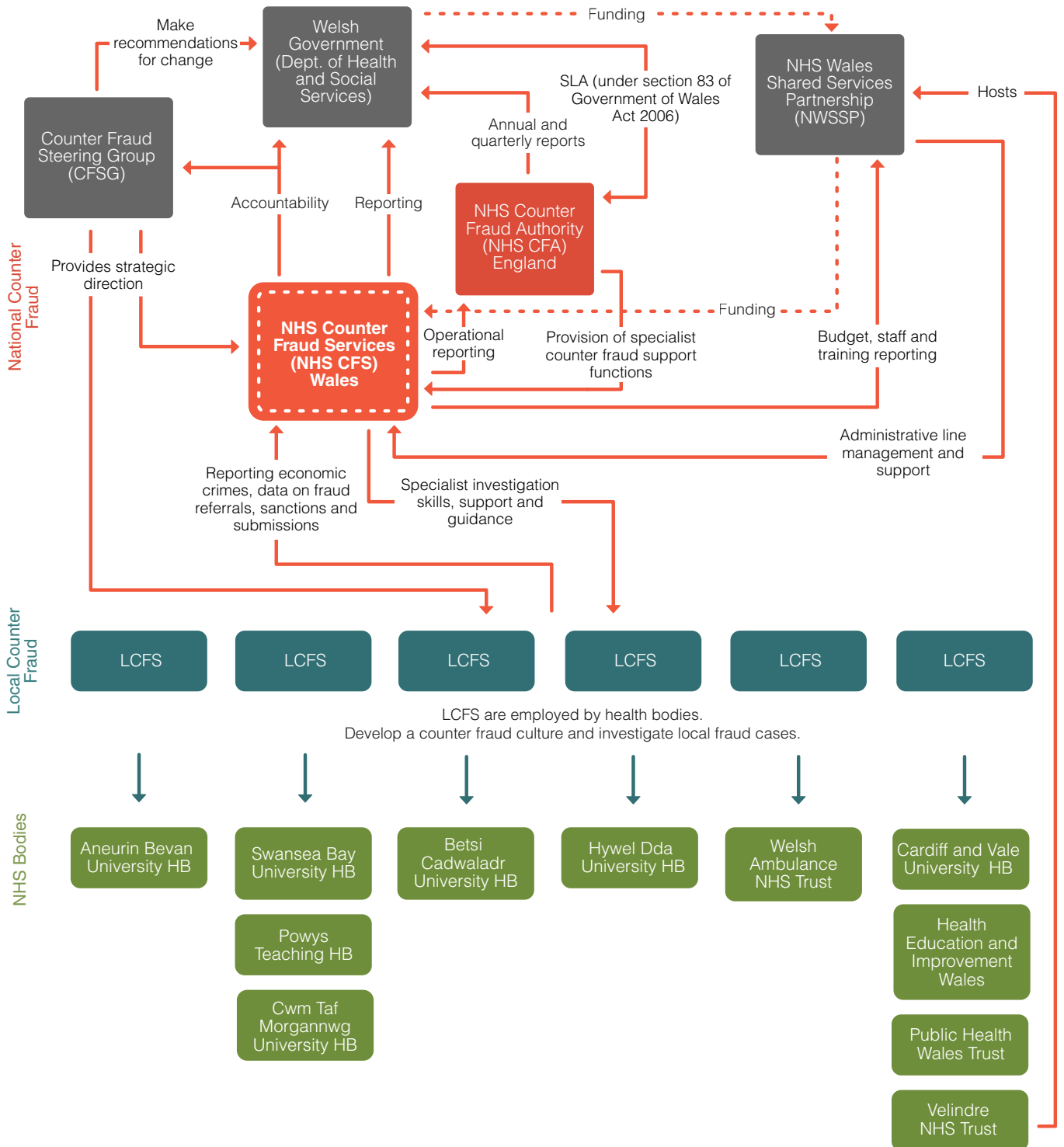
The defendant pleaded guilty to defrauding the EU and the Welsh Government of £4.7 million. In May 2019, he was sentenced to three years and nine months in prison.

The NHS in Wales

2.4 The Welsh Government retains overall responsibility for development and implementation of a strategy to combat crime in the NHS in Wales. It draws on three sources of resources and expertise to deliver counter-fraud services within NHS Wales, as shown in [Exhibit 9](#):

- The NHS Counter Fraud Authority (NHSCFA) – see [paragraphs 2.6 to 2.9](#);
- NHS Counter Fraud Services Wales (NHSCFS) Wales – see [paragraphs 2.10 to 2.11 and Exhibit 10](#); and
- Local Counter Fraud Specialists (LCFS) – see [paragraphs 2.12 to 2.13 and Exhibit 11](#).

Exhibit 9: the structure of counter-fraud services in NHS Wales



Source: Wales Audit Office

- 2.5 In 2001, the (then) Welsh Assembly Government launched the document 'Countering Fraud in NHS Wales' and issued Directions on counter-fraud measures to all health bodies in Wales. This resulted in the creation of the NHS Counter Fraud Service (NHSCFS) Wales Team, funded by the Welsh Government, and the requirement for all health bodies to nominate an accredited Local Counter Fraud Specialist (LCFS).

The NHS Counter Fraud Authority (NHSCFA)

- 2.6 In 2017 Welsh Ministers and the newly established NHS Counter Fraud Authority England (NHSCFA) entered into a new service level agreement under section 83 of the Government of Wales Act 2006. Under this agreement, the NHSCFA provides specialist counter-fraud services to Wales including IT support, intelligence, quality assurance and guidance.
- 2.7 The NHS Counter Fraud Authority is a specialist authority dedicated to identifying, investigating and preventing fraud and other economic crime within the NHS across England. The NHSCFA is independent from other NHS bodies and is directly accountable to the Department of Health and Social Care (DHSC) in England.
- 2.8 The NHSCFA sets national standards and provides policies and guidance (including the NHS Counter Fraud Manual) to support NHS bodies across England and Wales to implement effective local counter-fraud arrangements. It also conducts an Annual Quality Assurance assessment of LCFS resources at each NHS Wales body, and has commented positively on the structure, performance standards and quality of counter-fraud work across NHS Wales.
- 2.9 The NHSCFA submits quarterly reports to the Welsh Government, which enable Welsh Ministers to monitor the performance of the NHSCFA against the agreed annual service level agreement for the provision of specialist support services. The NHSCFA produces an annual report which is shared with Welsh Ministers, the NHS Wales Directors of Finance and the Counter Fraud Steering Group.

The NHS Counter Fraud Service in Wales

- 2.10 The NHS Counter Fraud Service (NHSCFS) Wales provides specialist criminal investigation and financial investigation services to all health bodies in Wales. Funded by the Welsh Government, the NHSCFS Wales team provide an operational lead for NHS Wales and the Welsh Government, to help ensure a consistent approach to counter-fraud work across NHS Wales.
- 2.11 **Exhibit 10** sets out the role and work of the NHS Counter Fraud Service in Wales in more detail.

Exhibit 10: overview of the counter-fraud arrangements within NHS Counter Fraud Service in Wales

Resources



- The NHS Counter Fraud Service (NHSCFS) Wales team comprises seven FTE experienced investigators.
- The team includes two accredited Financial Investigators who have the powers to recover funds from convicted fraudsters. They use investigation and restraint powers under POCA 2002 when appropriate.
- The NHSCFS Wales Manager is professionally accountable to the Head of Operations of the NHSCFA.
- NHSCFS Wales is a division of the NHS Wales Shared Service Partnership. The NHSCFS Wales team is employed by Velindre NHS Trust.

Work and Collaboration



- The main role of the NHSCFS Wales team is to investigate and prosecute serious, complex, or large-scale economic crime cases (fraud, corruption and bribery) within NHS Wales. Such cases may involve more than one health body and may cover both England and Wales.
- The NHSCFS Wales team investigates all cases in line with the NHS Anti-Fraud Manual and all relevant criminal law, and consider appropriate criminal, civil or disciplinary sanctions.
- The NHSCFS Wales team also provides specialist investigation skills, support and guidance to the LCFS network across NHS Wales. This includes cases which potentially involve senior executives and/or management at health bodies, where independent assurance is required as LCFS staff report to Directors of Finance.
- Although most of the team's activity is reactive and involves investigative work, NHSCFS Wales also undertakes proactive work such as presentations to NHS staff. These raise awareness of potential fraud risks and the reporting routes for any concerns.
- The NHSCFS Wales team facilitates information sharing on good practice and promotes general awareness of counter-fraud work and developments across NHS Wales.
- The team maintains a case management system and hosts a good practice exchange forum twice a year for LCFS staff, where specialist trainers from the NHSCFA in England provide updates on criminal justice issues and professional accreditation refresher training.
- The team also delivers regular fraud awareness training to key NHS Wales staff and stakeholders highlighting potential crime risks and addressing relevant system weaknesses.
- The team regularly engages with the police services when police arrest or search powers are necessary. The team also works closely with the National Crime Agency in relation to financial and money laundering investigations. Relevant investigative information is also shared with medical professional regulatory and disciplinary bodies when appropriate.
- The NHSCFS Wales team can refer its cases directly to the Crown Prosecution Service for independent consideration of criminal prosecution action. The team also reviews and approves LCFS prosecution files prior to their submission to the Crown Prosecution Service.

Scrutiny



- The Counter Fraud Steering Group (CFSG) provides the prime governance and oversight for counter-fraud arrangements for NHS Wales.¹⁴
- The CFSG meets quarterly, with attendees including representatives from the Welsh Government, NHS Wales Finance, NHSCFA, NHSCFS Wales, the Chair of the NHS Wales Audit Committees and internal and external audit.
- The NHSCFS Wales Manager completes a risk-based annual work plan and submits it to the NHSCFA's Head of Operations for review. This work-plan highlights the potential areas of risk, based on intelligence data and identifies proactive priorities across NHS Wales. The CFSG reviews and endorses the work plan.
- The NHSCFS Wales team updates the Welsh Government, NHSCFA and relevant Finance Directors on any significant case developments as well as producing a quarterly case report for each of their ongoing investigations. The NHSCFS Wales team also produces quarterly consolidated economic crime investigation data for NHS Wales.
- The NHSCFS Wales team reports to the CFSG every quarter who then make recommendations to NHS Wales Directors of Finance and to the Welsh Government.
- The NHSCFS Wales team's activities are subject to inspection review and scrutiny by the NHSCFA's Governance and Assurance Manager.
- The NHSCFS Manager reports on counter-fraud work, including resources and sanctions secured, to the Health and Social Services Group within the Welsh Government.

Impact



- During 2018-19, there were 23 referrals investigated by NHSCFS Wales. The team secured four criminal convictions, one internal disciplinary and nine civil recoveries which led to £380,000 being recovered for NHS Wales.
- During the five-year period 2014-19, NHSCFS Wales and the LCFS teams have jointly recovered a total of £2.3 million for NHS Wales and have together secured 64 criminal convictions, 177 civil recoveries and 147 disciplinary sanctions.
- There is currently no comprehensive analysis of specific fraud risks, which may result in counter-fraud resources not being directed to the most appropriate areas. The CFSG is leading work to develop an analysis which will inform the future allocation of resources.
- The NHSCFS Wales team has investigated several significant fraud cases in recent years. **Case Studies 5 and 6** provide two notable examples.

Source: Wales Audit Office

¹⁴ A sub-group of the NHS Wales Directors of Finance Group, chaired by the Director of Finance and Corporate Services of the NHS Wales Shared Services Partnership

Case study 5: NHSCFS Wales investigation – Powys Teaching Health Board

A temporary Project Manager at Powys Teaching Health Board established a private company through which he submitted bogus invoices totalling £822,000 to his employer using false names.

The Powys fraud case was an anonymous referral received by the NHS CFS Fraud and Corruption reporting line in June 2015.

The perpetrator was assisted in this fraud by two other employees. In October 2018, the three individuals were convicted of Fraud and Money Laundering. The instigator was sentenced to seven years imprisonment, and the others to four and three years imprisonment respectively.

Proceeds of Crime Act 2002 confiscation proceedings are currently in progress with a view to recovering the money defrauded from the Health Board.

Case study 6: NHSCFS Wales investigation – Overpayment of Salary to NHS Nurse

A nurse was mistakenly paid a monthly salary for 17 months after she left her job and failed to disclose the error to her former employer.

The nurse stopped working at Cwm Taf University Health Board in January 2017 but was paid her monthly salary in error up until May 2018. This led to overpayments of £25,000. Instead of alerting her previous NHS employers to the continued salary payment error, the nurse decided to keep the money, which she then spent.

The error came to light during a review of salary payments and the case was then referred to NHS Counter Fraud Service Wales for investigation.


The nurse pleaded guilty to theft and was given a sentence of six months in prison, suspended for 12 months. She was ordered to carry out 200 hours of unpaid work and to attend a rehabilitation course. The nurse was ordered to repay the amounts overpaid at a minimum of £250 per month back to Cwm Taf University Health Board.




The Local Counter-Fraud Specialists in Wales

2.12 Individual health bodies are responsible for dealing with their own counter-fraud matters at a local level. Each health body in Wales has a nominated Local Counter Fraud Specialist employed by the health body who, either on their own or as part of a team, investigates smaller value fraud cases within their own health bodies.

2.13 **Exhibit 11** sets out the role and work of the Local Counter Fraud Specialists at health bodies in more detail.

Exhibit 11: overview of the Local Counter Fraud Specialists at health bodies

<p>Resources</p> 	<ul style="list-style-type: none">• Welsh Government Directions require each local health board in Wales to appoint and train at least one Local Counter Fraud Specialist (LCFS). Each LCFS is accredited by the Counter Fraud Professional Accreditation Board.• There is no regulatory requirement for health bodies to have more than one LCFS and no benchmark for the level of resource that should be invested. This has resulted in a variation in the resourcing levels at health boards.• The Local Counter Fraud Specialists are employed by health bodies in Wales and are usually based at the relevant health body. Not all health bodies employ their own LCFS directly, some buy in the service from another health body.• The Director of Finance at each local health board makes decisions relating to recruitment of LCFS, and the NHSCFS Wales Manager assists with the recruitment process.• The total number of LCFS staff in Wales has increased from 14.3 FTE in 2014-15 to 18.2 FTE in 2018-19.
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<p>Work & Collaboration</p> 	<ul style="list-style-type: none"> • The LCFS acts as the focal point for all economic crime matters within each health body. The Fraud, Bribery and Corruption Standards drive this work, which are set and updated annually by the NHSCFA. • LCFS staff are responsible for the initial investigation of all allocated allegations of economic crime affecting their NHS bodies. These are often the less complex economic crime referrals, but LCFS investigations frequently secure appropriate criminal, civil and disciplinary sanctions. • LCFS are also responsible for developing the counter-fraud culture at their respective health bodies. They host presentations and workshops within their NHS bodies to raise awareness of economic crime risks, the counter-fraud arrangements within their health body and the ways in which NHS Wales staff should report any concerns. • The LCFS also undertake prevention and deterrence work which highlights successful investigation outcomes, and also make recommendations to improve NHS Wales control systems so that opportunities to commit offences can be minimised. • Each LCFS is required to complete a four-week accreditation course, funded by NHS Wales and sourced from independent training providers. All LCFS staff receive continuing professional development training from the NHSCFA.
<p>Scrutiny</p> 	<ul style="list-style-type: none"> • LCFS report on their work plans and progress reports to their health body's Audit Committee, and occasionally call on the support of NHSCFS Wales if required to update on a specific case. • LCFS are directly accountable to the Finance Directors at their health bodies. • It is the responsibility of the Director of Finance and the LCFS to keep their Audit Committee informed of the progress of economic crime investigations and outcomes.
<p>Impact</p> 	<ul style="list-style-type: none"> • During 2018-19, 129 cases were allocated to LCFS for investigation, and their work led to recoveries of £142,364 for NHS Wales. Their investigations also resulted in 12 criminal sanctions, 30 disciplinary sanctions and 27 civil recoveries. • The LCFS have investigated several significant fraud cases in recent years. Case Studies 7 and 8 provide two notable examples.

Source: Wales Audit Office

Case study 7: LCFS Wales – Clinical Research Fellow in Cardiff & Vale area

A doctor was employed on a two-year contract as a full time Clinical Research Fellow at Cardiff & Vale University Health Board where he was contracted to work 40 hours per week split equally between clinical duties and research work.

Information received indicated that the subject was not conducting any of his research work. The issue was referred for investigation and it was confirmed that the subject was working lucrative hours as a locum doctor when he should have been completing his research work for the health body.

When interviewed, the doctor admitted the offences, he was subsequently charged with multiple fraud offences and appeared at Cardiff Crown Court, where in March 2018 he was sentenced to eight months imprisonment suspended for six months. He was also ordered to repay £55,733 in compensation with £2,000 investigation costs and a £115 victim surcharge. The individual is no longer employed by the health body and the issue has been referred to the General Medical Council.

Case study 8: LCFS Wales investigation – Student Nurse in Cwm Taf area

A former student nurse repeatedly submitted false information over several years when applying for student finance related funding. The mature student claimed that she was a single mother living with her two children in order to receive enhanced bursary funding and DWP benefits when she was actually living with her husband who was in full employment.

The joint investigation with DWP confirmed the false bursary and benefit claims and she was charged with multiple fraud and forgery offences. The subject appeared at Merthyr Crown Court where she pleaded guilty and was sentenced on 18 October 2017 to a 24-month custodial sentence; the husband was also sentenced to six months imprisonment for assisting the commission of the offences. Action under the Proceeds of Crime Act 2002 is ongoing to recover the proceeds of the frauds from the subjects.

Local Government

- 2.14 There are 22 Unitary Local Authorities in Wales. Each is a corporate body responsible for exercising the functions devolved to them under the Local Government (Wales) Act 1994.
- 2.15 These elected councils are responsible for policy formulation and determining spending priorities. Accordingly, each council determines how much resource to allocate to counter fraud and what policies and strategies they wish to follow.
- 2.16 The counter-fraud landscape across Local Government differs markedly from the NHS and Central Government in Wales. There is no all-Wales team responsible for local government counter-fraud or an overarching strategy or policy framework. Arrangements vary widely from council to council.
- 2.17 **Exhibit 12** sets out the key aspects of counter-fraud arrangements within Welsh councils.

Exhibit 12: overview of the counter-fraud arrangements currently within Welsh councils

Resources



- Austerity measures and pressures on budgets have led to a reduced internal capacity to investigate fraud and corruption at many councils.
- Most councils no longer have a dedicated council-wide counter-fraud team or resource.
- Leading up to 2014 all councils had dedicated counter-fraud arrangements primarily organised around the identification of benefit fraud and error. However, in 2014, a national Single Fraud Investigation Service (SFIS) for benefit fraud was established within the Department for Work and Pensions (DWP), and most of the skilled fraud investigators who transferred across to the DWP have not been replaced by councils.
- While some councils have retained a dedicated counter-fraud resource, internal audit has filled the gap elsewhere. However, not all internal audit teams have received formal training and many teams lack counter-fraud experience.
- In councils where internal audit undertake the investigations, increases in volume often means they do not deliver other programmed work on time due to limited resources.
- Our 2018 National Fraud Initiative (NFI) report found considerable variation in the level of commitment being shown by participants and, in a small number of cases, participants failed to adequately review NFI matches in an effective or timely manner.

Work and Collaboration



- Individual councils are responsible for developing their own counter-fraud policies and culture.
- Councils tend to focus more on investigations rather than prevention due to a lack of resources and competing priorities.
- There are examples of where councils undertake some proactive work and raise awareness both internally and externally, but this is not widespread.
- Generally, councils prioritise potential fraud cases as and when they arise, but the numbers of cases are difficult to predict.
- A Welsh Chief Auditors group meets twice a year and participants view this as an effective means of discussing common issues. However, counter-fraud is not a standing agenda item for this forum.
- There are some informal local networks in regions eg North Wales Chief Auditors, South Wales creditors group which act as an additional forum to discuss counter-fraud issues. Some councils are members of the National Anti-Fraud network which provides fraud alerts to members.
- Councils recognise the benefit of collaboration and having a more holistic approach as well as the opportunities to share resources, skills and work across boundaries. However, barriers of time, cost and data sharing sensitivities, are some of the reasons preventing this from happening. Although collaboration could ultimately lead to cost savings there are conflicting short-term demands in times of austerity.
- Councils have some links with CIPFA and often use its published information for example the Fighting Fraud Locally Strategy. However, councils' proactive engagement with CIPFA is limited. On cost grounds, only two councils have subscribed to the CIPFA Counter Fraud Centre.

Scrutiny



- Councils typically provide information to their respective Audit Committees on cases of identified fraud and investigations. However, this information varies in terms of format and frequency.

Impact



- Aggregate information on identified losses and types and incidence of fraud, sanctions and recoveries is not currently collected across the councils.
- Information about new or novel frauds is not formally shared between councils to raise awareness and strengthen counter-fraud controls.

Source: Wales Audit Office

The National Fraud Initiative

- 2.18 The Welsh Government, several Welsh Government Sponsored Bodies, NHS and local government bodies in Wales all participate in the National Fraud Initiative (NFI). NFI is a data-matching tool which enables organisations to identify and investigate data anomalies that may be due to fraud. The Auditor General for Wales administers NFI in Wales, Audit Scotland in Scotland and Northern Ireland Audit Office in Northern Ireland. The former Audit Commission administered NFI in England until 2015, when responsibility transferred to the Cabinet Office.
- 2.19 The NFI has established itself as the UK's premier public-sector fraud-detection exercise. The design of the system allows the matching of different sets of data to identify possible fraudulent or erroneous claims and payments. Where the NFI system identifies a match, it may indicate an inconsistency which requires further investigation; it is not in itself evidence of a fraud. Participating organisations receive online reports containing the matches which relate to their organisation and they are responsible for analysing those matches.
- 2.20 Since 1996, the NFI has identified more than £35 million of fraud and overpayments in Wales, and nearly £1.7 billion across the UK. The information submitted is wide-ranging and includes data relating to housing benefits, student-loan recipients, payroll and pension payments.
- 2.21 The most recent NFI report concluded that although most participants have an effective approach for managing the NFI and reviewing data matches, there is still considerable variation in the level of the participants' commitment and, in a small number of cases, participants have failed to adequately review NFI matches in an effective or timely manner.
- 2.22 **Case Studies 9 and 10** provide examples of actions taken by local authorities in response to NFI data matches.

Case study 9: National Fraud Initiative (NFI) – City and County of Swansea occupational pension fraud

The City and County of Swansea reviewed NFI matches released in January 2017 between persons in receipt of occupational pensions paid by the Council and DWP records of deceased persons.

Checks were undertaken to confirm that the matched parties were the same. Where this was the case, further checks were undertaken to confirm that the pension was still in payment and whether pension records had been updated to record that the pensioner had died. Where pensions were still in payment after the date of death, payments were suspended, and attempts made to trace the next of kin. Eligibility forms were also sent out as a means of determining continued eligibility.

Because of the review, 26 cases were identified where incorrect pension payments were being made, and the Council is seeking to recover the overpayments. In one case, the pension overpayment amounted to £10,058. A further 11 pensions remain suspended, pending ongoing investigations to trace next of kin.

Case study 10: Caerphilly County Borough Council duplicate payments to creditors

Caerphilly County Borough Council undertook a review of NFI creditor payment matches to identify and investigate potential duplicates.

Several duplicates were identified which had already been recovered by means of supplier credits or refunds, but a number of unrecovered duplicates were also identified through this exercise. Thirty-seven unrecovered duplicated payments were identified with a total value of £60,534.

The Council has recovered, or is seeking to recover, all the duplicate payments identified and is continuing to review its systems and procedures to prevent overpayments in the future.

The Wales Fraud Forum

2.23 There is one other organisation in Wales that plays a role in counter-fraud; the Wales Fraud Forum¹⁵. This is a not for profit company run by a strategic board of volunteers from public and private sectors within Wales. The Wales Fraud Forum does not receive funding or employ staff, but its members have formed a steering group. The steering group uses its limited available time to:

- promote fraud awareness amongst its membership, organisations and individuals throughout Wales;
- promote an open and co-operative environment between the membership in both public and private sectors;
- establish a sound working relationship with similar forums in the UK and overseas and develop fraud prevention strategies for Wales in line with the UK's national fraud strategies;
- provide the opportunity through feedback and surveys to assess the general effectiveness of Wales Fraud Forum initiatives; and
- organise conferences and master classes on subjects relating to the fight against fraud.

2.24 The steering group is working towards creating a good practice culture by encouraging and developing anti-fraud strategies for members to utilise. It also aims to identify fraud risks and define methods to promote awareness and shared good practice, to enable its membership to effectively manage fraud.

2.25 Membership of the steering group includes a varied mix from the private and public sectors. There is a representative from the NHS and the Welsh Government on the group but there is currently no Local Government representative.

2.26 Details of some other counter-fraud organisations operating across England and Wales are set out in [Appendix 4](#).

¹⁵ www.fraudforum.wales/

Appendices

Appendix 1 – Audit Methods

Document reviews

We reviewed and reflected on the cumulative audit knowledge held within the Wales Audit Office regarding counter-fraud arrangements within the Welsh public sector. This included our previous work on the National Fraud Initiative and any recent local audit work on this topic.

We undertook a literature review on the topic of counter-fraud both generally and specific to the UK public sector. This included the following publications:

- ▶ Association of Fraud Examiners: Report to the Nations, 2018 Global Study on Occupational Fraud and Abuse
- ▶ Cabinet Office: Cross Government Fraud Landscape Report 2018
- ▶ KPMG: Fraud Barometer 2018 - A snapshot of Fraud in the UK
- ▶ Home Office, Criminal Finances Team: Asset recovery statistical bulletin, 2012-13 to 2017-18
- ▶ PricewaterhouseCoopers (PwC): Global Economic Crime Survey 2018: UK findings
- ▶ National Audit Office: Online Fraud report, June 2017
- ▶ Government Internal Audit Agency: Review of Approach to Counter Fraud, November 2017
- ▶ NHS Counter Fraud Authority: Wales Annual Performance Report, Annual Summary Report 2017-18
- ▶ CIPFA Counter Fraud Centre: Fighting Fraud and Corruption Locally, 2016-19 Checklist
- ▶ CIPFA Counter Fraud Centre: Counter Fraud Assessment Tool, 2015
- ▶ CIPFA Counter Fraud Centre: The local government counter-fraud and corruption strategy, 2016-2019
- ▶ National Fraud Initiative in Wales, Report 1 April 2016 to 31 March 2018
- ▶ The Government Counter Fraud Profession: Protecting public services and fighting economic crime
- ▶ Northern Ireland Audit Office: Managing Fraud Risk in a Changing Environment, 17 November 2015
- ▶ NHS Counter Fraud Authority: Wales Annual Performance Report, Annual Summary Report 2017-18
- ▶ NHS Wales: Fighting Fraud Strategy

Interviews

We had discussions with fraud specialist colleagues within the Wales Audit Office and conducted structured interviews with representatives from the following organisations:

- The Welsh Government's Counter Fraud team
- The NHS Counter Fraud Service Wales team
- Representatives from eight Welsh councils with a lead role in counter-fraud and fraud investigation
- The Wales Fraud Forum

We have also held discussions with representatives from the following organisations:

- Chartered Institute of Public Finance and Accountancy (CIPFA) in Wales
- The CIPFA Counter Fraud Centre
- The Welsh Local Government Association
- Cabinet Office Centre of Expertise for Counter Fraud
- Government Counter Fraud Profession

Appendix 2 – Arriving at an estimate for the cost of fraud to the Welsh public sector

The Association of Certified Fraud Examiners (ACFE) recognises that counting the cost of fraud is an incredibly difficult task, given the number of unknown factors required to make such an estimate. 'No one knows the amount of frauds that go undetected or unreported, and even for those frauds that do come to light, the full amount of loss might never be calculated. Such limitations mean that any attempts to quantify the global amount of fraud will be imperfect'.

The global cost of fraud

The ACFE has attempted to answer this question by surveying more than 2,000 anti-fraud experts who together have investigated hundreds of thousands of fraud cases. On this basis, the ACFE estimates that organisations lose 5% of their annual revenues to fraud. Applying this percentage to the gross world product yields a potential loss of £60 trillion annually.

The cost of fraud to the UK

A recent report by the UK Cabinet Office reveals an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure. The top end of these estimates is consistent with the findings of ACFE above.

The cost of fraud to Wales

Whilst it is difficult to quantify fraud losses both globally and nationally, it is even more difficult to find reliable estimates for the cost of fraud within the Welsh public sector. There is no annual survey or review undertaken to try and answer this question let alone break this down further either by sector or type of fraud.

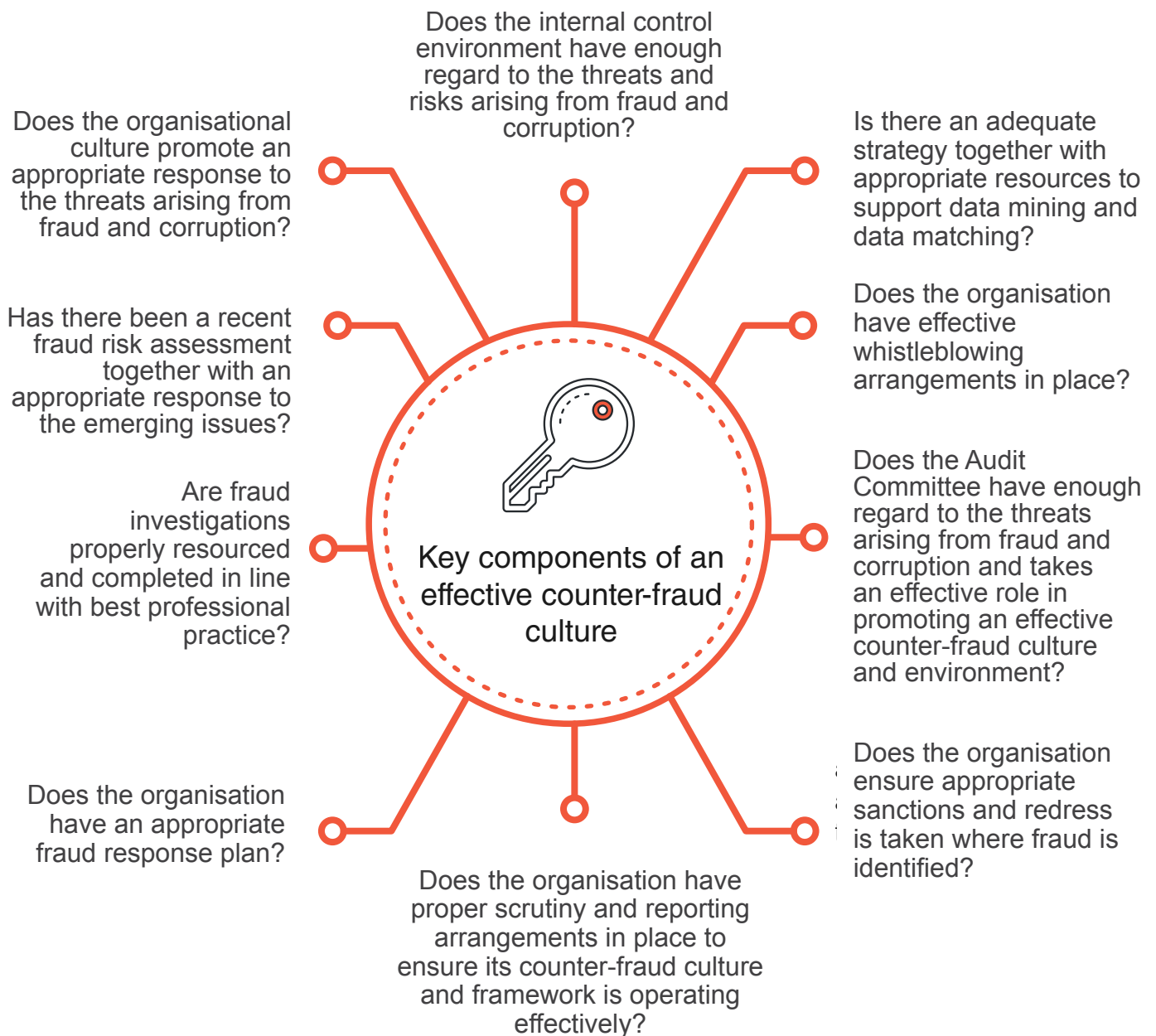
We have estimated in this paper that the cost of fraud in the Welsh public sector could be in the region of between £100 million and £1 billion annually.

We have arrived at this estimate by applying the Cabinet Office percentages above to devolved annual expenditure in Wales of £19.6 billion. This value comes from the Wales Audit Office Report – 'A Guide to Welsh Public Finances' and is derived from the main sources of funding for devolved services in Wales in 2016-17. These comprise the £14.5 billion block grant plus local borrowing, taxation and other borrowing and income.

Appendix 3 – Key components of an effective counter-fraud culture

Organisations can mitigate against the risk of fraud by having the right organisational culture supported by effective counter-fraud arrangements.

Key elements of effective counter-fraud arrangements are set out below. This list is not exhaustive, but it covers the main components.



Appendix 4 – Organisations promoting counter-fraud across the UK

The ways in which fraud is committed are constantly evolving as society and technology changes. Fraud does not respect geographical or other boundaries. It is therefore important that collaboration and the sharing of intelligence and good practice takes place across the UK.

This appendix provides details of organisations sharing intelligence and promoting counter-fraud across the UK, drawn from public website searches. It should not however be considered exhaustive, but rather as a good starting point for further inquiry.

The National Crime Agency

The role of the National Crime Agency (NCA) is to protect the public by disrupting and bringing to justice those serious and organised criminals who present the highest risk to the UK.

The NCA has a wide remit. They tackle serious and organised crime, strengthen our borders, fight fraud and cyber crime, and protect children and young people from sexual abuse and exploitation. They provide leadership in these areas through our organised crime, border policing, economic crime and CEOP commands, the National Cyber Crime Unit and specialist capability teams.

The NCA works closely with partners to deliver operational results. NCA has an international role to cut serious and organised crime impacting on the UK through a network of international liaison officers.

The National Anti-Fraud Network

Membership of the National Anti-Fraud Network (NAFN) is open to all public sector organisations and aims to provide cost-effective, class leading services which support the highest level of protection of the public purse & effective corporate governance.

NAFN exists to support its members in protecting the public interest. It is the largest shared service in the country managed by, and for the benefit of its members, and is hosted by Tameside MBC with each member paying a proportionate share of the annual operating costs. The NAFN Executive Board is elected annually by members at the AGM.

Membership is open to any organisation which has responsibility for managing public funds/assets and use of services is voluntary.

NAFN provides data, intelligence & best practice services for all teams within member organisations including:

- Corporate Fraud
- Debt Recovery
- Environmental Health
- Procurement
- Housing Benefit Fraud
- Housing
- Internal Audit
- Investigation
- Parking
- Trading Standards

This also includes both directly employed & out-sourced staff dealing with the verification of entitlement to services and benefits.

NAFN offers the following functions:

- Acquisition of data legally, efficiently and effectively from a wide range of information providers.
- Acting as the hub for the collection, collation and circulation of intelligence alerts.
- Providing best practice examples of process, forms and procedures.
- Compliance with the law & best practice: All data is acquired in full compliance with the law and best practice.
- Efficiency savings: Membership of NAFN significantly reduces recruitment, training and process costs for individual members. NAFN provides a pool of trained & accredited staff and negotiates savings for members.
- Effectiveness: NAFN is able to acquire data much faster than could be achieved by individual members.

Cifas

Cifas is a not-for-profit fraud prevention membership organisation. It claims to be the UK's leading fraud prevention service, managing the largest database of instances of fraudulent conduct. Cifas facilitates the sharing of data between more than 400 organisations in order to prevent and detect fraud.

Throughout the UK, Cifas experts and services help protect individuals and organisations from the growing and increasingly sophisticated threat of fraud and financial crime.

With every organisation that becomes a Cifas member, or with whom they collaborate, they establish a tougher environment for fraudsters – both externally and within an organisation. Using the simple tools of communication and sharing information, Cifas can shine a light on their activities for all members and partners to see.

For members of the public Cifas offer increased security against identity fraud, as well as expert advice on how to protect personal data in an increasingly tech-reliant world.

For individuals Cifas can provide the information and tools needed to understand fraud and financial crime when it happens and offer advice about what individuals can do to protect themselves from becoming a victim.

Since 1988, Cifas has collaborated with organisations from across the public and private sectors to create a non-competitive fraud prevention environment, focused on working with rather than against each other to defeat fraudsters. Their methods utilise a number of products and services including fraud risk databases and networking opportunities for members and law enforcement partners.

The CIPFA Counter Fraud Centre

Building on CIPFA's history of championing excellence in public finance management, its Counter Fraud Centre offers training and a range of products and services to help organisations detect, prevent and recover fraud losses.

The Centre leads on CIPFA's national counter-fraud and anti-corruption strategy for local government. It also conducts the annual CIPFA Fraud and Corruption Tracker, a national overview of all fraud, bribery and corruption activity throughout the UK public sector.

The Single Fraud Investigation Service

The Single Fraud Investigation Service (SFIS) is a partnership between the Department for Work and Pensions Fraud Investigation Service, HMRC and local authorities. These bodies work closely together to deliver a service where a single investigation covers all welfare benefit fraud and tax credit fraud.

The main objectives of the SFIS are to:

- operate under a single policy and set of operational procedures for investigating all welfare benefit fraud;
- conduct single investigations covering all welfare benefit fraud;
- rationalise existing investigations and prosecution policies to create a more coherent investigation service that is joined up, efficient and operates in a more consistent and fair manner, taking into account all offences that are committed;
- enhance closer working between DWP, HMRC and local authorities;
- bring together the combined expertise of all three services drawing on the best practices of each; and
- support the fraud and error integrated strategy of preventing fraud and error getting into the benefit system, by detecting and correcting fraud and punishing and deterring those who have committed fraud.

The Cabinet Office's Centre of Expertise for Counter Fraud

The Cabinet Office has recently established the Centre of Expertise for Counter Fraud as a function of central government in England. This new Centre sets cross-government standards for fraud and supports departments in understanding the risk posed by fraud.

The Centre comprises four key work streams:

- 1 The Government Counter Fraud Profession: team are responsible for improving cross-government counter-fraud capability and consistency by providing professional standards, competencies and guidance.
- 2 Policy Engagement & Assurance: the team set counter-fraud functional standards, for Government and then hold them to account. The team measure the amount of fraud and error detected through data gathered from departments. The data collected is then assessed through the Fraud Measurement and Assurance Exercise and the Prevention Panel.
- 3 Data Analytics Development: team are responsible for reviewing the use of data analytics and promoting greater access to data and data analytics across government. The team work to support and deliver new data sharing and data analytics projects, through the Digital Economy Act 2017¹⁶ where required.
- 4 The National Fraud Initiative: team focus on the prevention and detection of fraud through the cross matching of data from organisations in the public and private sectors across the UK.

¹⁶ The Digital Economy Act covers Wales. However Welsh Ministers are yet to enact the secondary legislation that will bring this Act into force

Appendix 5 – Glossary of Terms

ACFE	Association of Certified Fraud Examiners
ARAC	Audit and Risk Assurance Committee
Bribery	The offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of gifts, loans, fees, rewards or other advantages (taxes, services, donations, favours etc.).
CFSG	Counter Fraud Steering Group
Cifas	Cifas is a not-for-profit fraud prevention membership organisation.
CIPFA	Chartered Institute of Public Finance and Accountancy
Civil Recovery	The proceeds of crime can be recovered in civil proceedings in the High Court against property which can be shown to be the proceeds of crime.
Confiscation Order	A confiscation order is an order of the Crown Court which requires a convicted defendant to pay a sum of money to HM Courts and Tribunal Service.
CPS	Crown Prosecution Service
Cyber Crime	Crimes that target computer networks or devices. These types of crimes include viruses and denial-of-service attacks. Crimes that use computer networks to advance other criminal activities. These types of crimes include cyberstalking, phishing and fraud or identity theft.
DWP	Department for Work and Pensions
EU	European Union
Extortion	Extortion is a criminal offense of obtaining money, property, or services from an individual or institution, through coercion.
Fraud	The Fraud Act 2006 gives a statutory definition of the criminal offence of fraud, defining it in three classes – fraud by false representation, fraud by failing to disclose information, and fraud by abuse of position.
Fraud Triangle	The Fraud Triangle was developed in the 1950s by Donald Cressey which helps explain the circumstances within which fraud has a greater likelihood of taking place.
HMRC	Her Majesty's Revenue and Customs

LCFS	Local Counter Fraud Specialist
HMICFRS	Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services
NCA	National Crime Agency
National Fraud Initiative	The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud.
NHSCFA	National Health Service Counter Fraud Authority
NHSCFS	National Health Service Counter Fraud Service
Proceeds of Crime	In effect any handling or involvement with any proceeds of any crime (or monies or assets representing the proceeds of crime) can be a money laundering offence. An offender's possession of the proceeds of his own crime falls within the UK definition of money laundering.
Restraint Order	A restraint order is obtained to preserve assets until a confiscation order is paid in full. It can be obtained from the Crown Court at any time from the start of an investigation. A restraint order can also be obtained to preserve assets for reconsideration applications and when obtaining confiscation orders against absconded defendants.
SFIS	Single Fraud Investigation Service
WEFO	Welsh European Funding Office
Whistleblowing Arrangements	Processes put in place by organisations that enable their workers to come forward to raise a concern about wrongdoing in a safe and transparent manner.

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AUDIT COMMITTEE – 15TH OCTOBER 2019

SUBJECT: REGISTER OF EMPLOYEES' INTERESTS FORMS 2018/19

REPORT BY: HEAD OF PEOPLE SERVICES

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to provide the Audit Committee with information regarding the Register of Employees' Interests Forms completed by officers of the Council (excluding Schools) for the 12 month period 1 April 2018 to 31 March 2019 and provide a comparison with the same information for the previous 2 financial years.

2. SUMMARY

- 2.1 Enclosed in the Appendices are summaries of the declarations received by Directorate, Service Area, Type and Relationship for the 12 month period 1 April 2018 to 31 March 2019.

3. RECOMMENDATIONS

- 3.1 The Audit Committee are asked to note the contents of this report.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 The recommendations are designed to ensure members of the Audit Committee have an oversight of the position in relation to officers' Register of Employees' Interests Forms.

5. THE REPORT

- 5.1 The Council's Code of Conduct for Employees sets out guidance for employees on a range of issues, including the completion of a Register of Employee Interests form, which will help maintain and improve the high standards of conduct within local government and protect employees from misunderstandings and confusion.
- 5.2 Completed Register of Employees' Interests forms are submitted to Heads of Service, Directors or the Chief Executive who countersign the forms to show they are aware of the declaration. The form also records details of any controls / action taken to protect the Council's interests in the circumstances outlined on the form. A copy of the countersigned form is given to the employee and a copy sent to Human Resources for filing on the employee's personal file.

- 5.3 The Head of Service, Director or Chief Executive retains the original form and maintains a summary spreadsheet to record the forms. On a monthly basis the summary spreadsheet or a nil return is submitted to Human Resources for collation and monitoring for consistency and compliance.
- 5.4 In 2018/19 declarations were made by 80 employees and 2 agency workers, in 2017/18 declarations were made by 94 employees and 1 agency worker compared to 2016/17 when declarations were made by 71 employees. Where multiple declarations have been made on one form they have been recorded individually.
- 5.5 Appendix 1 summarises the Declarations of Interest by Directorate and Service Area for the period 1 April 2018 to 31 March 2019 and a comparison with the previous 2 financial years. The declarations for the previous years have been adjusted to reflect the current Directorate structures.
- 5.6 A total of 93 declarations of interest were made in 2018/19, compared to 122 in 2017/2018 and 89 in 2016/17. A percentage breakdown of Declarations of Interest by Type is shown below:

Type of Declaration	% of Declarations		
	2016/17	2017/18	2018/19
Relationship	40	63	29
Outside Interest	34	28	33
Gifts and Hospitality	26	9	38

- 5.7 Appendix 2 shows the detail of the Declarations of Interest by Type shown above divided into the 3 sections of the Register of Employees' Interest Form for the period 1 April 2018 to 31 March 2019 and a comparison with the previous 2 financial years.
- 5.8 Percentages for declarations of Outside Interests have increased to 33% and include school governor posts, external employment and volunteering.
- 5.9 The Audit Committee will be aware that Gifts and Hospitality is the subject of a separate, quarterly report to the Committee.
- 5.10 The information contained in the Appendices confirms that Relationships account for the highest number of declarations. The percentage breakdown by Relationship is shown below:

Type of Relationship	% of Declarations		
	2016/17	2017/18	2018/19
Councillor	8	2	4
Contractor	14	12	4
Employee	53	69	85
Other	25	17	7

- 5.11 Appendix 3 shows the detail of the Declarations of Interest by Relationship for the period 1 April 2018 to 31 March 2019 and a comparison with the previous 2 financial years.
- 5.12 New declarations for Relationships with Councillors have increased to 4% for 2018/19.

- 5.13 Declarations of Relationships with Contractors reduced to 4% in 2018/19 compared to 12% in 2017/18 and 14% in 2016/17.
- 5.14 Relationships between Employees produced the highest number of declarations and accounts for 85% of the declarations made in respect of Relationships. The Code of Conduct requires that all family relationships are disclosed.
- 5.15 As the Audit Committee will be aware, a poster campaign to raise awareness and remind employees of their responsibilities under the Code of Conduct took place in January 2017.

5.16 **Conclusion**

The Head of People Services will continue to monitor the declarations submitted and work with Heads of Service to improve their understanding, promote best practice and corporate compliance of the Code of Conduct where appropriate.

6. **ASSUMPTIONS**

- 6.1 There are no assumptions made within this report.

7. **LINKS TO RELEVANT COUNCIL POLICIES**

- 7.1 The Council's Code of Conduct for Employees confirms that in performing their duties, employees must act with integrity, honesty, impartiality and objectivity and that they must act in accordance with the principles set out in this Code, recognising the duty of all public sector employees to discharge public functions reasonably and according to the law. This is a Statutory Code requirement.

7.2 **Corporate Plan 2018-2023**

Whilst this report does not specifically contribute towards the Corporate Well-being Objectives, it does support good governance which is the foundation of the Council's performance management framework.

8. **WELL-BEING OF FUTURE GENERATIONS**

- 8.1 Having considered the five ways of working, they will not be affected by the contents of this report.

9. **EQUALITIES IMPLICATIONS**

- 9.1 There are no equalities implications, as the reason for declaring an interest applies equally to all staff, regardless of their individual characteristics.

10. **FINANCIAL IMPLICATIONS**

- 10.1 None.

11. **PERSONNEL IMPLICATIONS**

- 11.1 The personnel implications are included in this report.

12. CONSULTATIONS

12.1 There are no consultation responses that have not been included in the report.

13. STATUTORY POWER

13.1 Local Government Act 2000.

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Appendices:

Appendix 1 Declarations by Directorate and Service Area

Appendix 2 Declarations by Type

Appendix 3 Declarations by Relationship

Appendix 1

Declarations by Directorate and Service Area 2016/2017, 2017/2018 and 2018/19

Directorate	2016/17	2017/18	2018/19
Communities	32	32	28
Education and Corporate Services	33	63	21
Social Services and Housing	24	27	44
Total	89	122	93

Directorate / Service Area	2016/17	2017/18	2018/19
Communities	32	32	28
Public Protection, Community and Leisure Services	14	17	7
Infrastructure	4	3	9
Planning and Regeneration	12	10	8
Property Services	2	2	4
Education and Corporate Services	33	63	21
Business Improvement	2	4	1
Corporate Finance	1	13	1
Customer and Digital Services	6	36	12
Education Planning and Strategy	5	0	4
Learning Education and Inclusion	2	2	0
Legal and Governance	7	6	3
People Services	10	2	0
Social Services and Housing	24	27	44
Adult Services	6	4	31
Childrens Services	1	3	0
Caerphilly Homes	17	20	13
Overall Total	89	122	93

NB The declarations for the previous years have been adjusted to reflect the current Directorate structures.

Appendix 2
Declarations by Type 2016/2017, 2017/2018 and 2018/19

<i>Type of Declaration</i>	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>
Relationships	36	77	27
Councillor	3	2	1
Contractor	5	9	1
Employee	19	53	23
Other	9	13	2
Outside Interest - Financial	16	22	18
Business Relationship	0	0	0
Outside Employment	13	22	18
Personal Interest	3	0	0
Outside Interest - Non Financial	14	12	13
Membership of a Political Organisation	0	0	0
Membership of an External Body	11	5	3
Outside Employment - Unpaid	1	0	0
Personal Interest	2	5	9
Volunteering	0	2	1
Gifts and Hospitality	23	11	35
Gift	12	8	31
Hospitality	11	3	4
Other	0	0	0

Appendix 3
Declarations by Relationship 2016/2017, 2017/2018 and 2018/19

	2016/17	2017/18	2018/19
Relationship - Councillor	3	2	1
Child / Step Child	0	0	1
Cousin including in-Law	1	0	0
Grandparent including Great / in-Law / Step / Civil / Ex	1	1	0
Husband / Wife including Partner / Civil Partner / Ex	0	1	0
Parents-in-Law including Civil / Partner / Ex	1	0	0
Relationship - Contractor	5	9	1
Brother / Sister	0	2	0
Brother / Sister in-Law	0	1	0
Child / Step Child	0	0	1
Cousin including in-Law	1	1	0
Friend / Acquaintance	1	1	0
Husband / Wife including Partner / Civil Partner / Ex	2	3	0
Parent / Step	1	1	0
Relationship - Employee	19	53	23
Aunt / Uncle including in-Law / Step / Civil / Ex	2	3	2
Brother / Sister	2	6	5
Brother / Sister in-Law	0	3	0
Child / Step Child	0	11	4
Cousin including in-Law	1	2	1
Fiancé / Fiancée including Girl / Boy Friend / in-Law / Ex	4	2	0
Friend / Acquaintance	1	0	0
Husband / Wife including Partner / Civil Partner / Ex	8	13	3
Niece / Nephew including in-Law / Great / Step	0	0	1
Parent / Step	1	10	4
Parents-in-Law including Civil / Partner / Ex	0	0	2
Son / Daughter in-Law	0	3	1
Relationship - Other	9	13	2
Aunt / Uncle including in-law / Step / Civil / Ex	0	1	0
Child / Step Child	1	0	0
Cousin including in-Law	1	1	0
Fiancé / Fiancée including Girl / Boy Friend / in-Law / Ex	1	0	0
Friend / Acquaintance	1	1	1
Godparent / Godchild	0	1	0
Grandparent including Great / in-Law / Step / Civil / Ex	0	1	0
Husband / Wife including Partner / Civil Partner / Ex	3	4	1
Niece / Nephew including in-Law / Great / Step	1	0	0
Parent / Step	1	2	0
Parents-in-Law including Civil / Partner / Ex	0	2	0

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AUDIT COMMITTEE – 15 OCTOBER 2019

**SUBJECT: OFFICERS DECLARATIONS OF GIFTS AND HOSPITALITY
APRIL TO JUNE 2019**

REPORT BY: HEAD OF PEOPLE SERVICES

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to provide the Audit Committee with information regarding the Register of Employees' Interests Forms completed by officers of the Council (excluding Schools) regarding Gifts and Hospitality for the period 1 April to 30 June 2019 ie the first quarter of the financial year 2019/2020 and a comparison with the previous three quarters.

2. SUMMARY

- 2.1 Enclosed as Appendix 1 is a list of Register of Employees' Interests Forms in respect of Gifts and Hospitality completed by officers of the Council (excluding Schools) for the period 1 April to 30 June 2019.

3. RECOMMENDATIONS

- 3.1 The Audit Committee are asked to note the contents of this report.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 The recommendation is designed to ensure members of the Audit Committee have an oversight of the position in relation to officers' Gifts and Hospitality.

5. THE REPORT

- 5.1 The Council's Code of Conduct for Employees sets out guidance for employees on a range of issues, including the completion of a Register of Employee Interests form, which help maintain and improve the high standards of conduct within Local Government and protect employees from misunderstandings and confusion.

- 5.2 Completed Register of Employees' Interests forms are submitted to Heads of Service, Directors or the Chief Executive who countersign the forms to show they are aware of the declaration. The form also records details of any controls / action taken to protect the Council's interests in the circumstances outlined on the form. A copy of the countersigned form is given to the employee and a copy sent to Human Resources for filing on the employee's personal file.
- 5.3 The Head of Service, Director or Chief Executive retains the original form and maintains a summary spreadsheet to record the forms. On a monthly basis the summary spreadsheet or a nil return is submitted to Human Resources for collation and monitoring for consistency and compliance.
- 5.4 In accordance with the Council's Code of Conduct for Employees, Gifts / Hospitality of less than £25 may be accepted by the employee but any Gift / Hospitality which could be seen by a third party as placing the employee under an improper obligation such as more than one Gift / Hospitality from the same party must be refused, irrespective of its value.
- 5.5 Employees may accept small offers of Hospitality only where the activity is of a nature where there is a genuine need to impart information or to represent the Council in the community. Offers to attend purely social or sporting functions should be accepted only when these are part of the life of the community or where the Council should be seen to be represented.
- 5.6 The table below details the number of declarations regarding Gifts submitted by Directorate for the period 1 April to 30 June 2019 and the previous three quarters for comparison.

Directorate	Number of declarations received - Gifts			
	April – June 2019	Jan – March 2019	Oct – Dec 2018	July – Sept 2018
Communities	0	3	0	0
Education and Corporate Services	1	0	0	0
Social Services and Housing	5	1	6	20
Total	6	4	6	20

- 5.7 The table below details the number of declarations regarding Hospitality submitted by Directorate for the period 1 April to 30 June 2019 and the previous three quarters for comparison.

Directorate	Number of declarations received - Hospitality			
	April – June 2019	Jan – March 2019	Oct – Dec 2018	July – Sept 2018
Communities	4*	1	0	0
Education and Corporate Services	1	0	0	0
Social Services and Housing	0	0	0	0
Total	5	1	0	0

* includes an Agency employee.

5.8 Conclusion

The Head of People Services will continue to monitor the declarations submitted and work with Heads of Service to improve their understanding, promote best practice and corporate compliance of the Code of Conduct where appropriate.

6. ASSUMPTIONS

- 6.1 There are no assumptions made within this report.

7. LINKS TO RELEVANT COUNCIL POLICIES

- 7.1 The Council's Code of Conduct for Employees confirms that in performing their duties, employees must act with integrity, honesty, impartiality and objectivity and that they must act in accordance with the principles set out in this Code, recognising the duty of all public sector employees to discharge public functions reasonably and according to the law. This is a Statutory Code requirement.

7.2 Corporate Plan 2018-2023

Whilst this report does not specifically contribute towards the Corporate Well-being Objectives, it does support good governance which is the foundation of the Council's performance management framework.

8. WELL-BEING OF FUTURE GENERATIONS

- 8.1 Having considered the five ways of working, they will not be affected by the contents of this report.

9. EQUALITIES IMPLICATIONS

- 9.1 There are no equalities implications, as the reason for declaring an interest applies equally to all staff, regardless of their individual characteristics.

10. FINANCIAL IMPLICATIONS

- 10.1 None.

11. PERSONNEL IMPLICATIONS

- 11.1 The personnel implications are included in this report.

12. CONSULTATIONS

- 12.1 There are no consultation responses that have not been included in the report.

13. STATUTORY POWER

- 13.1 Local Government Act 2000.

Author: Lynne Donovan, Head of People Services
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Appendices:

Appendix 1 Declarations of Gifts and Hospitality 1 April to 30 June 2019

Appendix 1
Declarations of Gifts and Hospitality 1 April to 30 June 2019

Directorate	Service Area	Post Title of Employee Making the Declaration	Type of Declaration	Details Of Declaration	Post Title of Head of Service, Director or Chief Executive who authorised the declaration	Outcome
Education and Corporate Services	Customer and Digital Services	eGovernment Development Officer	Gift	Box of chocolates received in the mail from a supplier. Approximate value £25. Donated to charity raffle	Head of Customer and Digital Services	Accepted
Social Services and Housing	Caerphilly Homes	Sheltered Housing Officer	Gift	Birthday gifts from 4 scheme tenants. Approximate value ranging from £2 to £5 each	Chief Housing Officer	Accepted
Communities	Infrastructure	Assistant Engineer	Hospitality	Invitation from external contractor to Civil Engineering Contractors Association (CECA) Wales Awards Dinner. Approximate value not known	Head of Infrastructure	Accepted
Communities	Infrastructure	Contract Supervisor	Hospitality	Invitation from external contractor to Civil Engineering Contractors Association (CECA) Wales Awards Dinner. Approximate value not known	Head of Infrastructure	Accepted
Communities	Infrastructure	Principal Engineer	Hospitality	Invitation from external contractor to Civil Engineering Contractors Association (CECA) Wales Awards Dinner. Approximate value not known	Head of Infrastructure	Accepted
Communities	Infrastructure	Project Manager (Agency)	Hospitality	Invitation from external contractor to Civil Engineering Contractors Association (CECA) Wales Awards Dinner. Approximate value not known	Head of Infrastructure	Accepted
Education and Corporate Services	Customer and Digital Services	Development Officer	Hospitality	Invitation by another Local Authority to the Constructions Excellence Wales Awards Dinner. Approximate value not known	Head of Customer and Digital Services	Accepted



Reference: 1432A2019-20

Date issued: 5 August 2019

Audit of Caerphilly County Borough Council's 2019-20 Improvement Plan

Certificate

I certify that, following publication on 31 July 2019 I have audited Caerphilly County Borough Council's Improvement Plan in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe that the Council has discharged its duties under section 15(6) to (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to prepare and publish an Improvement Plan describing its plans to discharge its duties to:

- make arrangements to secure continuous improvement in the exercise of its functions;
- make arrangements to secure achievement of its improvement objectives; and
- make arrangements to exercise its functions so that any performance standard specified by Welsh Ministers is met.

The Measure requires the Council to publish its Improvement Plan as soon as is reasonably practicable after the start of the financial year to which it relates, or after such other date as Welsh Ministers may specify by order.

The Council is responsible for preparing the Improvement Plan and for the information set out within it. The Measure requires that the Council has regard to guidance issued by Welsh Ministers in preparing and publishing its plan.

As the Council's auditor, I am required under sections 17 and 19 of the Measure to carry out an audit of the Improvement Plan, to certify that I have done so, and to report whether I believe that the Council has discharged its duties to prepare and publish an Improvement Plan in accordance with statutory requirements set out in section 15 and statutory guidance.

Scope of the Improvement Plan audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit I am not required to form a view on the completeness or accuracy of information, or whether the Improvement Plan published by the Council can be achieved. Other assessment work that I will undertake under section 18 of the Measure will examine these issues. My audit of the Council's Improvement Plan, therefore, comprised a review of the plan to ascertain whether it included elements prescribed in legislation. I also assessed whether the arrangements for publishing the plan complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing its plan.

The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.



Adrian Crompton
Auditor General for Wales

CC: Julie James AM – Minister for Housing and Local Government
Non Jenkins, Manager
Gareth Jones, Performance Audit Lead



AUDIT COMMITTEE – 15TH OCTOBER 2019

SUBJECT: REGULATION OF INVESTIGATORY POWERS ACT 2000

REPORT BY: HEAD OF LEGAL SERVICES AND MONITORING OFFICER

1. PURPOSE OF REPORT

- 1.1 To advise Members of the numbers of covert surveillance operations undertaken by the Council in accordance with the provisions of the Regulation of Investigatory Powers Act 2000 (RIPA) for the period 1st June to 30th September 2019.

2. SUMMARY

- 2.1 To provide an update on the number of operations undertaken in accordance with RIPA for the period 1st June to 30th September 2019.

3. RECOMMENDATIONS

- 3.1 None. Members note the information provided.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure compliance with statutory requirements.

5. THE REPORT

- 5.1 The Regulation of Investigatory Powers Act 2000 (RIPA) sets out strict controls for public authorities wishing to carry out covert surveillance of individual members of the public as part of their exercise of their statutory functions. In addition to this Act, advice and guidance is found within the Codes of Practice issued by the Investigatory Powers Commissioner's Office.
- 5.2 The Authority has a corporate policy, which provides guidance on how surveillance should be used by the relevant officers.
- 5.3 Public Authorities undertaking covert surveillance of individual members of the public are subject to inspection by the Investigatory Powers Commissioner's Office.

5.4 Members are advised that for the period 1st June to 30th September, 2019 there have been no RIPA operations.

5.5 Conclusion

5.6 The report advises members that there have been no applications made in relation to RIPA operations for the period 1st May to 30th September 2019.

6. ASSUMPTIONS

6.1 There are no assumptions contained within this report.

7. LINKS TO RELEVANT COUNCIL POLICIES

7.1 This report contributes to the governance arrangements on the use of directed surveillance and covert human intelligence sources under the Regulation of Investigatory Powers Act 2000 as set out in the Council's Policy and Procedure under the Regulation of Investigatory Powers Act 2000.

8. WELL-BEING OF FUTURE GENERATIONS

8.1 The Council is under an obligation to comply with legislative requirements - this report helps to achieve that.

8.2 The Regulation of Investigatory Powers Act 2000 (RIPA) provides a statutory mechanism for authorising directed surveillance and the use of a covert human intelligence source, which aims to ensure that any interference with the individual's right to privacy under Article 8 of the European Convention is necessary and proportionate, and that both the public interest and the human rights of individuals are protected and as such contributes to the following wellbeing goals within the Well-being of Future Generations Act (Wales) 2015.

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A globally responsible Wales

9. EQUALITIES IMPLICATIONS

9.1 None, the report is for information only.

10. FINANCIAL IMPLICATIONS

10.1 None, the report is for information only.

11. PERSONNEL IMPLICATIONS

11.1 None, the report is for information only.

12. CONSULTATIONS

12.1 None. The report is for information only.

13. STATUTORY POWER

13.1 Regulation of Investigatory Powers Act 2000.

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Caerphilly County Borough Council**

Audit year: 2018-19

Date issued: 2 September 2019

Document reference: 1400A2018-19

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding

disclosure or re-use of this document should be sent to the Wales Audit Office at

infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

This document was produced by Barrie Morris and Grace Hawkins of Grant Thornton UK LLP.

Contents

The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

Summary report

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Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Caerphilly County Borough Council at 31 March 2019 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Caerphilly County Borough Council are £6.5 million generally. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of Caerphilly County Borough Council, for 2018-19, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 7 June 2019, in line with the agreed deadline. As at 2 September 2019, our audit work is complete. Other than as outlined in this report, we have not identified any issues which would not enable the Council to approve the final version of the accounts under the delegated arrangements approved at the special Council meeting on 30 July 2019. The areas that are still outstanding as at 2 September 2019 are:
 - Completion of our Whole of Government Accounts audit work (September 2019 deadline. This is not covered by the audit opinion).
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. We provided a further update on any matters arising and the current status of the outstanding issues at the Council meeting on 30 July 2019 and this report has been updated to reflect those issues and any other matters arising from the work that has been completed in the period to 2 September 2019. The audit team has already discussed these issues with officers.

Proposed audit report

- 8 Based on the audit work completed to date it is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

Response to financial audit risks

- 10 Our Audit Plan, which was presented to the Audit Committee in April 2019, set out the risks relating to the Council's financial statements. As part of our interim audit, we completed work in a number of areas to consider the risks and provided an update to the Council's finance team on our work on these risks.
- 11 As part of our final accounts audit, we have reviewed the remaining areas and have set out below our final conclusions on the work completed. Our review of the current issues facing the Council has not identified any additional audit risks that we need to bring to your attention.

Exhibit 1: response to financial audit risks

Financial audit risk – Significant Risk	Response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	We have: <ul style="list-style-type: none">• tested the appropriateness of a sample of journal entries, based on our risk assessment, and other adjustments made in preparing the financial statements;• reviewed accounting estimates for bias; and• evaluated the rationale for any significant transactions outside the normal course of business. Two recommendations have been raised in appendix 4 as a result of the work completed

Financial audit risk – Significant Risk	Response
Valuation of property, plant and equipment (Gross)	<p>We have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions where appropriate; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; and • tested revaluations made during the year to ensure they are input correctly into the asset register and correctly reflected in the financial statements. <p>Our work has identified two amendments and a number of recommendations in relation to the valuation of property, plant and equipment. These have been reported in appendices 3 & 4.</p>

Financial audit risk – Significant Risk	Response
<p>Valuation of Pension Fund Net Liability</p>	<p>We have:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls have been implemented and operated as expected and whether they are sufficient to mitigate the risk of material misstatement. • evaluated the competence, expertise and objectivity of the actuaries who carried out your pension fund valuations. We gained an understanding of the basis on which the valuations were carried out. • undertook procedures to confirm the reasonableness of the actuarial assumptions made. • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports from your actuaries. <p>Our audit work has identified one amendment in relation to the McCloud/ Sergeant judgement. This has been outlined in paragraph 14 and appendix 3.</p>
<p><u>Other Audit Matters</u></p>	
<p>New accounting standards IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses and will impact on how the bad debt provision is calculated.</p> <p>IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration a body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the Council's assessment of the impact of the introduction of the new standards. • reviewed the disclosures in the accounts to determine if they are sufficient and reasonable against the Code of Practice on Local Authority Accounting in the United Kingdom <p>No issues were identified as part of our work performed.</p>

Significant issues arising from the audit

Uncorrected misstatements

- 12 There are two misstatements identified in the financial statements from our testing to date, which remain uncorrected. This is in relation to the errors outlined in recommendations 6 and 9 in appendix 4.

Corrected misstatements

- 13 There are misstatements that will be corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

Other significant issues arising from the audit

- 14 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**
- **We did not encounter significant difficulties during the audit.**
- **There was one significant matter discussed and corresponded upon with management, which we need to report to you.**

Impact of the McCloud/Sergeant ruling re age discrimination on pension liabilities - The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members (the McCloud and Sergeant cases respectively). The legal ruling around age also has implications for other pension schemes where transitional arrangements on changing benefits were implemented, and this includes the Local Government Pension Scheme (LGPS). The Government had applied to the Supreme Court for permission to appeal but this was rejected in June 2019 which confirmed that there was a present obligation to pay additional benefits to scheme members affected, and that it is probable that there will be an outflow of cash as a result of this. We have been discussing the implications of this with management and more widely with the sector as a whole to ensure consistency. We have requested that management discuss the implications of the current situation with their actuary and obtain additional information from them in order to ascertain whether the net defined pension liability could be materially understated. This information was received by the

Council on 12 July 2019 and a subsequent adjustment will be made to the accounts as per appendix 3.

- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any material weaknesses in your internal controls.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2018-19 financial audit work

- 15 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

- 16 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 17 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Auditor General for Wales, the Wales Audit Office, Grant Thornton and Caerphilly County Borough Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

31 July 2019

Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of Caerphilly County Borough Council for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness. We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and Code of Practice; in particular, the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Caerphilly County Borough Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. There were two uncorrected misstatement identified as part of the audit in relation to the disclosure of the revaluation movements over the 5-year cycle and those assets not captured within the 5-year rolling program. Officers will continue to review this disclosure and amend it as part of future account disclosures.

Representations by the Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Council on 30 July 2019.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

Appendix 2

Proposed audit report of the Auditor General to the Members of Caerphilly County Borough Council

The independent auditor's report of the Auditor General for Wales to the members of Caerphilly County Borough Council

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Caerphilly County Borough Council for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

Caerphilly County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Caerphilly County Borough Council as at 31 March 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19;
- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Caerphilly County Borough Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
[Date]

24 Cathedral Road
Cardiff
CF11 9LJ

Electronic publication of financial statements

The maintenance and integrity of the Caerphilly County Borough Council website is the responsibility of the Council. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the web site.

Appendix 3

Summary of corrections to be made to the draft financial statements which should be drawn to the attention of the Audit Committee as those charged with governance

During our audit we identified the following misstatements that will be corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 2: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
-2,373,360	HRA housing stock revaluation adjustment	An error on the original valuation report from the VOA was identified by management due to the Council Dwelling stock numbers used. The report has now been updated and the accounts will be amended, resulting in a decrease to the revaluation gain. This adjustment will not impact on cash balances.
-4,962,000	Impact of McCloud/Sergeant judgement on Council's total pension liabilities.	Impact of the McCloud/Sergeant ruling regarding age discrimination on pension liabilities. The legal ruling around age has implications for pension schemes where transitional arrangements on changing benefits were implemented, and this includes the Local Government Pension Scheme (LGPS). We have been discussing the implications of this with management and more widely with the sector as a whole to ensure consistency. Management obtained updated figures from the Pension Fund Actuary which has resulted in an increase in the liability and a subsequent adjustment to the statement of accounts.
£23,843,438	Accounting for accumulated depreciation write back	From testing performed it was identified that accumulated depreciation written back had been accounted for twice in the Property, Plant and Equipment note (23). This inflated the 'revaluation to revaluation reserve' line and 'other movements in cost or valuation' line by an equal amount. This write back in already accounted for in the accumulated depreciation and impairment section of the note. This has been corrected for the current and prior year period and has a net impact of zero on the property, plant and equipment balance.

Value of correction	Nature of correction	Reason for correction
£6,177,000	HRA income and expenditure adjustment on face of CIES	A manual adjustment is made to the face of the Comprehensive Income and Expenditure Accounts to reflect the income and expenditure split disclosed in the Housing Revenue Account. The manual adjustment had not been made during the accounts preparation to reflect the split disclosed in the Housing Revenue Account on the face of the CIES. This has no impact on the Net Expenditure or cash balances of the HRA.
Various	A number of other minor disclosure issues were identified and have been processed by management.	To enhance the overall quality and presentation of the financial statements.

Appendix 4

Recommendations arising from our 2018-19 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 3: matter arising 1

Matter arising 1 - Internal Audit - tracking of recommendations	
Findings	Internal Audit - tracking of recommendations
Priority	Medium
Recommendation	<p>The Audit Committee does not have oversight of the recommendations made by Internal Audit. A tracking document should therefore be produced which shows the progress of these recommendations.</p> <p>This was raised in the prior year and ongoing discussion with management has confirmed that a new audit software is to be implemented in 2019/20 that will enable such information to be reported to those charge with governance.</p>
Benefits of implementing the recommendation	The Audit Committee have oversight over the recommendations made and progress in clearing these.
Accepted in full by management	Yes
Management response	The setting up of the new software system parameters and the population of datasets is well underway. It is anticipated that full test usage will begin in September 2019 with ongoing development work running in parallel.
Implementation date	Full test usage from September 2019.

Exhibit 4: matter arising 2

Matter arising 2 – Journals authorisation	
Findings	Journals authorisation
Priority	High
Recommendation	<p>Not all journals are authorised within the authority. This was raised in prior years and management have reviewed the process and lowered the authorisation threshold to £100k as reported to the Audit Committee. However, many journals still remain that are not reviewed and authorised before being posted to the general ledger.</p>

Matter arising 2 – Journals authorisation	
Benefits of implementing the recommendation	There is currently a risk that an inappropriate or erroneous journal could be processed and impact on the financial statements
Accepted in full by management	No
Management response	At its meeting on the 16 th October 2018 the Audit Committee endorsed a recommendation by Officers to implement an authorisation threshold of £100,000 to its journal transfer software. There are no plans to review this limit at the present time.
Implementation Date	N/A

Exhibit 5: matter arising 3

Matter arising 3 – Journals users	
Findings	Monitoring of Journals Users
Priority	High
Recommendation	During the course of audit, we were provided with the most recent schedule of council employees that were able to access the ledger and post journals. Our testing identified an employee who had two access logins active simultaneously due to a transfer to another team during the year. These accounts have different access rights within the system. We would recommend that the access to the general ledger system and the posting of journals is monitored and a central schedule is maintained and kept up to date to record who has access to process journals. Access rights for an employee should be disabled when a transfer between departments occurs
Benefits of implementing the recommendation	This will reduce the risk of unauthorised personnel posting journal entries to the general ledger that will impact the financial reporting.
Accepted in full by management	Yes
Management response	We will undertake a further review of current procedures to ensure that user profiles are updated centrally when staff changes occur.
Implementation Date	Immediately.

Exhibit 6: matter arising 4

Matter arising 4 – Provision for doubtful debts	
Findings	The opening balance contained a significant amount of historical data that had been brought forward from previous years.
Priority	Medium
Recommendation	As a result of the audit work performed, we recommend that a detailed review of historical debtor balances is reviewed each financial year. This recommendation was also raised in the prior year.
Benefits of implementing the recommendation	Reviewing the balances regularly ensures that the doubtful debt provision is a true reflection of the position at the year-end.
Accepted in full by management	Yes
Management response	A number of historic balances were cleared during 2018/19. A further review of balances will be undertaken during the current financial year.
Implementation date	31 st March 2020

Exhibit 7: matter arising 5

Matter arising 5 – Capital Commitments (Note 23)	
Findings	A number of the capital commitments disclosed within note 23 could not be verified to supporting evidence at year end.
Priority	Medium
Recommendation	As a result of the audit work performed, we recommend that a detailed review of the capital commitment note is undertaken at each year end, to ensure that the note accurately reflects the financial commitments made to each project.
Benefits of implementing the recommendation	The note will accurately represent the capital commitments made as at the financial year end.
Accepted in full by management	Yes
Management response	A review of capital commitments will be undertaken on an annual basis.
Implementation date	2019/20 onwards

Exhibit 8: matter arising 6

Matter arising 6 – Revaluation 5-year summary (note 23)	
Findings	The revaluation 5-year summary in note 23 was found to be incorrectly stated from testing performed. Assets that are held at current value were included in the 'Carried at historical cost' line. Also, the valuation movements for each year were included in the 'Valued at current value' lines when the actual balance at the 31 March should be included.
Priority	High
Recommendation	As a result of the audit work performed, we recommend that a detailed review of the revaluation 5-year summary is completed to ensure that it correctly reflect the assets that are held at historical cost and those that are held at current value and valued on a cyclical basis. Management have declined to amend this in the 2018-19 accounts.
Benefits of implementing the recommendation	The note will accurately represent the 5-year cyclical revaluation programme.
Accepted in full by management	Yes
Management response	The disclosure note will be reviewed, and further discussions will be held with the External Auditor.
Implementation date	2019/20

Exhibit 9: matter arising 7

Matter arising 6 – Revaluation Program	
Findings	<p>Our audit has identified that not all assets are revalued in the 5-year cycle contrary to the Code of Practice. We have reviewed all assets not captured and applied indices as provided by our auditors' expert (Gerald Eve LLP) against the last valuation date. This indicates that the value of these assets may be understated by approximately £2.8m. This is below both materiality and performance materiality. We consider that this represents a control weakness as well as being a potential understatement in the accounts.</p> <p>For assets that are captured in the 5-year rolling programme but not valued at 31 March 2019, we have similarly applied indices against the last valuation date to determine whether there is a material difference for the carrying value. Whilst a difference of some £22.3m is indicated by applying these indices, all of these assets have been revalued within the 5-year rolling period which</p>

	is in accordance with the Code. We are therefore satisfied that the financial statements are not materially misstated. However, the Council should consider the frequency of the revaluations particularly for large value assets.
Priority	High
Recommendation	As a result of the audit work performed, we recommend that the Council reviews its revaluation process and data management, to ensure that all assets held at fair value are captured within the 5-year rolling program. The Council should also review those assets not valued in the current financial year to ensure the carrying value and the fair value are not materially different.
Benefits of implementing the recommendation	To ensure all assets held at fair value are considered and captured within the revaluation program to comply with the Code of Practice.
Accepted in full by management	Yes
Management response	The revaluation process will be reviewed during the 2019/20 financial year to ensure that the audit recommendations are fully addressed.
Implementation date	2019/20 onwards.

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