

**AUDIT COMMITTEE  
23rd September, 2015**

Present:- Councillor Wyatt (in the Chair); Councillors Alam, Cowles, Evans and Hughes and Mr. B. Coleman (Independent Person).

Tim Cutler and Debra Chamberlain, KPMG, were in attendance.

**C14. QUESTIONS FROM THE PRESS AND PUBLIC**

There were no members of the press and public present at the meeting.

**C15. MINUTES OF THE PREVIOUS MEETING HELD ON 22ND JULY, 2015**

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 22<sup>nd</sup> July, 2015.

Resolved:- That the minutes of the previous meeting be approved as a correct record for signature by the Chairman.

Arising from Minute No. C6 (Heritable Bank PLC), it was noted that the 15<sup>th</sup> interim dividend had been received (approximately £72,000) at the end of August, 2015. This now totalled 98.2% of the original investment recovered with an expectation still of 100% recovery.

Arising from Minute No. C13 (Internal Audit Progress Report), it was noted that Internal Audit had almost completed a piece of work on the Integrated Housing Management System. It was also confirmed that the issue with Records Management had now been resolved.

**C16. AUDIT COMMITTEE PROSPECTUS**

An Audit Committee Prospectus, produced following consultation with Commissioner Sir Derek Myers, the Audit Committee Members and KPMG, was presented by Colin Earl, Assistant Director Audit, ICT and Procurement.

The Prospectus outlined the objectives and standards of the Committee, the scope of its work and how it would seek the assurance with regard to the management of risks across the Council together with an updated schedule of reports to be submitted during 2015/16 which replaced the workplan previously submitted (Minute No. C4 refers).

The fresh approach and other new arrangements would strengthen the Committee and enable it to better obtain assurances regarding the effective management of the Council's activities.

Resolved:- That the Audit Committee Prospectus "A Fresh Start" and the updated work programme resulting therefrom be noted.

**C17. ARRANGEMENTS FOR MONITORING THE IMPLEMENTATION OF EXTERNAL AUDIT AND INSPECTION RECOMMENDATIONS**

Consideration was given to a report setting out the arrangements in place with regard to the accountability and governance for implementing recommendations arising from external audits or inspections. It should be noted this excluded recommendations relating to both the Children and Young People's and Corporate Improvement Plans which were subject to a separate report to the Audit Committee in July, 2015 (Minute No. C3 refers).

**Adult Social Care**

- One outstanding recommendation with regard to Treefields Close. This related to there had been no registered manager in post for several months despite it being a condition of the home's registration that one was needed. The registration process of the new manager had commenced and sign off by the Care Quality Committee was expected by December, 2015
- Quarry Hill Road – inspection report still awaited
- Overall Adult Services had a satisfactory compliance record with standards subject to inspection
- Adult Social Care would adopt stronger practices now implemented in CYPS

**Finance and Corporate Services**

- There were no recommendations made in relation to the audit of the 2013/14 financial year
- Three low priority recommendations had been raised to those charged with Governance (ISA260 report). However, these had been discussed and agreed with the Auditor and measures put into place to address the issues raised

**Economic Development and Housing and Neighbourhood Services**

- An inspection of the Registration Service by the Passport Office (General Registrar Office) had been largely positive with eight areas inspected and met and two not met. The two not met related to the security and control of registration document stocks
- There were no recommendations outstanding in relation to the Registration Service
- External peer health checks had been commissioned.

Resolved:- (1) That the governance arrangements currently in place for monitoring and managing the recommendations from external audits and inspections were noted.

(2) That the Audit Committee continue to receive regular reports in relation to external audit and inspections and progress in implementing recommendations.

(3) That for the purposes of the Audit Committee future monitoring reports also include Children and Young People's Services.

**C18. REVISED RIPA AND ACQUISITION AND DISCLOSURE OF COMMUNICATIONS DATA POLICIES**

Catherine Parkinson, Interim Director of Legal and Democratic Services, presented a report on the Regulation of Investigatory Powers Act 2000 (RIPA) and the separate Council Policy governing the acquisition and disclosure of communications data by Council Officers. Commissioner Manzie had considered a report at her meeting on 17<sup>th</sup> September, 2015, proposing amendments to the policies which made provision for the Audit Committee to have oversight of the policies and the Council's use of RIPA powers, to ensure that the powers were being used consistently with the Authority's policies and that the policies remained fit for purpose.

The RIPA provided a mechanism to make it lawful for public bodies such as local authorities to use directed (i.e. covert) surveillance and covert human intelligence sources e.g. undercover officers and public informants (CHIS) for the purposes of the detection and prevention of crime. Any use of the powers had to be proportionate and necessary both in use and scope. Also any surveillance/CHIS undertaken by a local authority must relate to a serious crime (one punishable by six months imprisonment or certain offences involving the underage sale of alcohol and tobacco) and receive prior approval from the Magistrates' Court.

However, there were occasions where it would be necessary and proportionate to conduct covert surveillance in cases where the RIPA regime did not apply because they were not related to the Council's role to investigate regulatory crime and/or the serious crime test was not met.

The current Policy did not cover the Non-RIP surveillance and it was proposed to include an appendix to the Council's RIPA Policy that formalised the use of such surveillance and built in safeguards and quality checks similar to that of the RIPA regime. It included a written assessment to address whether it was in fact necessary and proportionate to carry out the surveillance and, if so, how any collateral intrusion into the privacy of others may be eliminated or minimised. In addition, such surveillance would only be authorised by officers who were appropriately trained and of such seniority as would allow them to authorise surveillance under the RIPA regime. All authorisations would have to be approved by Legal Services before any surveillance was carried out involving a quality assurance check by both the solicitor conducting the case and the RIPA Co-ordinator.

An updated Procedure and Guidance Document on the use of covert surveillance by public authorities which confirmed that Elected Members (or Commissioners in the case of Rotherham) should review the Council's use of RIPA and set the Policy once a year. It also stated that Elected Members should consider internal reports on the use of RIPA on a regular

basis to ensure that it was being used consistently with the Council's Policy and remained fit for purpose. The proposed RIPA Policy had been amended to reflect the updated publications.

The Council had a separate Acquisition and Disclosure of Communication Data Policy; a mechanism that allowed public bodies to acquire communications data where it was proportionate and necessary to do so for the purposes of detection and prevention of crime. Typically this might include mobile phone subscribed details and details of itemised calls. The serious crime test must be passed and prior approval obtained from the Magistrates' Court before the data was acquired. All Councils must make a request through a single point of contact at the National Anti-Fraud Network who would independently scrutinise applications and advise accordingly.

The new Acquisition and Disclosure of Communication Data Policy had been amended to reflect the requirements of the amended statutory Code of Practice and also made provision for the Audit Committee to have oversight of the police and the use of RIPA powers to ensure that the powers were being used consistently with the authority's policies and that they remained fit for purpose.

Reports would be submitted to the Audit Committee on a six monthly basis, however, the Committee was informed:-

2013/14

- 5 authorisations granted for directed surveillance
- No CHIS granted
- 2 authorisations for communications data

2014/15

- No directed surveillance or CHIS granted
- 3 authorisations for communications data

2015/16 so far

- 2 authorisations granted for directed surveillance
- No CHIS granted
- 1 application for communications data

Resolved:- (1) That the proposed amendments to the Council's RIPA Policy and Acquisition and Disclosure of Communication Data Policy, as set out in Appendix 1 and 2 respectively of the report submitted, including the proposed future oversight role for the Audit Committee be noted.

(2) That the annual figure for the use of RIPA and the Communications Data authorisations be noted.

(3) That future reports include data regarding the number of successful prosecutions achieved through use of the authorisations.

**C19. INTERNAL AUDIT CHARTER 2015**

Marc Bicknell, Chief Auditor, presented an updated Internal Audit Charter which was approved in July, 2014 (Appendix A of the report submitted).

The revisions made were to take into account the recent Council restructuring and included additional sections to reflect current best practice in relation to:-

- Defining the role of Internal Audit in any fraud related work (new Section 14 in the Charter)
- Arrangements for avoiding conflicts of interest if internal audit undertook non-audit duties (new Section 16)

Resolved:- That the Internal Audit Charter 2015 be approved.

**C20. ANNUAL FRAUD REPORT 2014/15**

Colin Earl, Assistant Director, Audit, ICT and Procurement, presented the draft 2014/15 annual fraud report which detailed the work done by the Council to counter-fraud and corruption as in line with good practice recommended by CIPFA.

The report demonstrated that the incidence of general fraud remained very low in overall terms taking into account the Council's activities and its level of spending. The overall number and value of fraud cases and other significant issues in 2014/15 had fallen slightly since 2013/14.

It also highlighted:-

- Housing and Council Tax Benefit fraud had fallen – Council Tax discount claims and business rates tax evasion had risen
- 784 potential fraudulent benefits cases investigated (1,060 in 2013/14) from which 17 prosecutions obtained (37 in 2013/14) and 95 cautions/penalties issues (96 in 2013/14)
- Whistleblowing cases remained low as did the number of suspicions referred to Internal Audit by Service Management
- Significant changes that would affect fraud within the Council and nationally

The priority for 2015/16 would be to further strengthen the Council's arrangements for combatting fraud and corruption. Following self-assessment against the recently published "CIPFA Code of Practice for managing fraud and corruption" a range of actions had been identified and outlined in the recently revised RMBC Anti-Fraud and Corruption Strategy/Policy/action plan.

In late 2014 Rotherham and Doncaster's Internal Audit Services had successfully made a joint bid for counter-fraud funding from DCLG (£49,000 each for the period January, 2015 to March, 2016). The bid was to carry out a programme of awareness training and data analysis work to look for erroneous and fraudulent transactions.

Resolved:- (1) That the production of the Annual Fraud Report 2014/15 be supported.

(2) That appropriate publicity be produced to highlight the outcomes from the Council's anti-fraud activity and to act as a deterrent to fraud.

(3) That the important national changes in responsibility for combatting fraud arising from the recent abolition of the Audit Commission be noted.

(4) That consideration be given to the issuing of a press release to the local media on the Authority's approach to fraud and the extent to which it had been able to deal with it.

## **C21. ANTI-FRAUD AND CORRUPTION POLICY AND STRATEGY**

Colin Earl, Assistant Director of Audit, ICT and Procurement, submitted a proposed update to the Council's Anti-Fraud and Corruption Policy and Strategy to ensure they were up-to-date with current best practice and recent changes to the Council's organisational structure. The review Policy and Strategy were attached to the report submitted at Appendix A and B respectively.

The report also provided a summary of proposals to further strengthen the Council's arrangements following a self-assessment against the CIPFA checklist included in its new Code of Practice on Managing the risk of fraud and corruption.

The main changes to the documents were:-

- Reflected the Rotherham Improvement Plan objectives and to show the way the Council's anti-fraud work supports these objectives
- RMBC organisational changes and consequent post titles had been taken into account
- Recognition that the Single Fraud Investigation Services would be implemented in Rotherham in December, 2015, and would take over responsibility for future benefits and fraud detection and investigation
- Consideration and self-assessment of a new CIPFA "Code of Practice on Managing the Risk of Fraud and Corruption" (Appendix D of the report submitted)

Appendix C of the report contained an update to the Council's action plan for managing the risk of fraud. It was important that the arrangements continued to be reviewed and updated where necessary to ensure scarce resources were not diverted from Council priorities due to fraud.

Discussion ensued on the report with the following issues highlighted/clarified:-

- The roles and responsibilities be reflected/repeated on Appendix D
- The Government funding received would be used to better engage with the organisation as a whole in relation to the responsibility of minimising the risk of fraud. A series of workshops would be held to explain to managers about their responsibility to anti-fraud and assist with the fraud risks and the risk register

Resolved:- (1) That the proposed revisions to the Anti-Fraud and Corruption Policy and Strategy be approved.

(2) That the draft Cyber Security Policy be submitted to the Committee.

## **C22. REVIEW OF RISK MANAGEMENT POLICY AND STRATEGY**

Colin Earl, Assistant Director of Audit, ICT and Procurement, presented a revised risk Management Policy and Guide which took into account current private and public sector practice and Rotherham's specific position following the corporate governance inspection and subsequent intervention.

The challenge for the Council was to re-establish appropriate risk management arrangements and responsibilities and to ensure risk management was embedded into the culture and behaviour of the organisation.

The Policy:-

- Outlined the Council's approach to managing risks
- Explained when it might accept risks
- Confirmed roles and responsibilities existed for risk management
- Made commitments relating to the monitoring, reviewing and reporting of risks

The Guide:-

- Introduced the concept of Risk and Risk Management
- Described the Council's objectives for risk management
- Set out the Council's detached approach to risk management
- Identified roles and responsibilities
- Explained monitoring arrangements
- Outlined training and support available for risk management

The report identified the actions proposed to implement effective risk management and achieve the Corporate Improvement Plan requirements. These included:-

- Roles and responsibilities
- Implementation – Strategic Risk Register
- Implementation – Directorate Risk Register
- Managing the Risk of Fraud
- Resources
- Risk Management System
- Role of the Audit Committee
- Monitoring and Reporting

Discussion ensued on the report with the following comments made/concerns raised:-

- Concern that the Authority was still not taking Risk Management particularly seriously in light of, wherever possible, risk arrangements being placed with the Council's Insurance Officer rather than ensuring there was a dedicated risk manager even if on a temporary basis pending any formal structure proposals that might arise in the next few months as a result of Service reviews and/or budget setting
- Peer support had been secured from Leicester City Council, steered by Tony Edeson (2014 ALARM Risk Manager of the Year). Tony's services and previous experience were being used and was coaching the Insurance and Risk Manager as an interim measure
- A Risk Management Champion role was part of the discussion around the Corporate Services review. In the meantime, Colin Earl, Tony Edeson and the Insurance and Risk Manager would progress the action plan
- Strategic Directors were on board with the updating of Risk Registers
- The Committee's "deep dives" would enable testing of the process to ascertain if it was working and whether the Risk Registers were of quality. These would enable Members to get a feel of how seriously risk management was being taken
- Further concern that the JCAD risk management system was seen as a barrier to risk management recording rather than a facilitator due to it being considered not simple to use
- The system could be a barrier to risk management rather than a facilitator. It was proposed to cease using the JCAD system and replace it with a simple documentation system used by Leicester that was considered easy to use and met Rotherham's needs. Use of the new documentation would be rolled out in meetings with Directorate Management Teams and workshop sessions with managers. The Audit Committee noted and questioned the proposal to cease using JCAD. Tim Cuter, KPMG, stated the Council should ensure it used



procedures and/or systems that would encourage the practice of risk management

- The Corporate Improvement Plan contained various actions and projects relating to the Council's governance and risk management arrangements and these were currently in progress. These needed to be considered and responded to collectively rather than in a piecemeal fashion. Initial feedback on the outcomes from the relevant actions and reviews was expected in early October and the impact on risk management would be reported to the Audit Committee at its next meeting

Resolved:- (1) That the revised Risk Management Policy and Guide be not approved until it could be confirmed that there was a dedicated Risk Manager resource and it was confirmed there would be suitable replacement for the JCAD system.

(2) That an update be submitted following further consultation on the issue of the Governance and Risk Manager post and the JCAD Risk Management System.

### **C23. ANNUAL GOVERNANCE STATEMENT 2014/15**

Colin Earl, Assistant Director Audit, ICT and Procurement, presented the final Annual Governance Statement 2014/15.

Since the draft Statement had been considered at the meeting on 22<sup>nd</sup> July, 2015 (Minute No. 9 refers), two significant developments had been reflected in the final document. Firstly, reference to the first six monthly report submitted by Commissioners to the Government on 26<sup>th</sup> August, 2015, and secondly the completion of the audit of the 2014/15 accounts by KPMG, the Council's external auditors.

The Commissioners' report to the Government highlighted some significant progress had been made by the Council whilst recognising there was still a significant amount more to be done. KPMG had confirmed that they would be issuing an unqualified opinion on the Council's accounts. However, as in 2013/14, KPMG had concluded the Council had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March, 2015. KPMG recognised there was little time available to complete the step changes necessary between the timing of the intervention (26<sup>th</sup> February, 2015) and the end of the 2014/15 financial year but had recognised the progress made in the six months period (February to August, 2015).

Colin Earl, Assistant Director, Audit, ICT and Procurement, read out a slight change of Paragraph 5.3.2 of the report which, because KPMG was unable to give a specific date when they would be issuing their opinion on the accounts (although they had confirmed it would be by 30<sup>th</sup> September, 2015) had to be updated to:-

**“5.3.2 Opinion on Financial Statements 2014/15**

KPMG have confirmed they will be issuing an unqualified opinion on the Council's financial statements for the 2014/15 financial year by 30<sup>th</sup> September 2015. In KPMG's opinion, the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year ended 31<sup>st</sup> March 2015.”

In line with the Accounts and Audit Regulations, the final Statement had been signed by the Leader and Managing Director.

Resolved:- (1) That the certification of the final Annual Governance Statement by the Leader of the Council and the Managing Director, as required by the Accounts and Audit Regulations and related Guidance, be noted.

(2) That the attached final Annual Governance Statement 2014/15, amended for the updated Section 5.3.2., be approved.

**C24. EXTERNAL AUDITOR'S REPORT ON THE ACCOUNTS 2014/15**

Consideration was given to a report presented by Tim Cutler, KPMG, which advised on matters arising from the external audit of the Council's 2014/15 Statement of Accounts as presented in the External Auditor's ISA260 report and, in acknowledging these findings, requested that the Audit Committee approve both the Letter of Management Representations and the audited Statement of Accounts 2014/15.

The unaudited Statement of Accounts had now been subject to audit and any necessary changes discussed and agreed with the Auditor. The Statement of Accounts, in its revised form, now required approval by Members prior to publication before the end of September, 2015.

The Auditor's ISA 260 report set out in detail the outcomes from the audit including any changes made to the unaudited Statement of Accounts 2014/15.

Overall, the ISA260 report was an extremely positive one and considered the accounts to be of a high quality. There had been a prior period adjustment which, following clarification from CIPFA, a change in accounting policy was adopted and an adjustment made to the accounts together with a small number of minor presentational changes identified all of which had been agreed with the external auditor and corrected in the final version of the Statement of Accounts.

None of the presentational changes made affected the financial performance or financial position of the Council reported in the unaudited Statement of Accounts.

Three low priority recommendations had been put forward by and agreed with the auditor. Measures had been put into place to discuss the issues raised.

In addition, the report confirmed that:-

- The audit process was fully supported through good quality working papers
- Timely responses to audit queries
- No other matters which needed to be reported to the Audit Committee

As a result of the positive assurances, KPMG anticipated being able to give an unqualified opinion by 30<sup>th</sup> September that the Council's Statement of Accounts provided a true and fair view of its financial position at 31<sup>st</sup> March, 2015 and its income and expenditure for the year then ended (see page 3 of the report).

These findings demonstrated that the Council had been able to sustain in 2014/15 the high standard of financial reporting that had been achieved in recent years since International Financial Reporting Standards (IFRS) were adopted.

This had been supported by the developments that had and were continuing to take place to facilitate financial reporting namely the introduction of a new general ledger structure during the course of the year and improvements to year end closure procedures.

It also reflected the benefit of officers working proactively with External Audit from an early stage in the audit to discuss and seek agreement on significant/complex accounting issues and areas of audit focus.

The auditor had identified Value for Money risks in the External Audit Plan for 2014/15 which was reported to Committee on 22<sup>nd</sup> July, 2015 (Minute No. 10) refers. As the Commissioners were not appointed until late February, 2015, and there was only one month before the end of the financial year, it was not anticipated that sufficient progress would be made in improving the Council's Governance arrangements within that timeframe. As a result and, as previously reported to Committee, the auditor expected to issue a qualified Value for Money conclusion in respect of 2014/15.

The auditor had confirmed this conclusion but it was important to note that it was recognised that the Commissioners had developed a robust Improvement Plan and were in the process of implementing a series of initiatives to strengthen the corporate governance arrangements in line with the Improvement Plan which would be fundamental in re-establishing the essential component parts of an effective modern local authority.

Resolved:- (1) That the Auditor's ISA260 report to those charged with governance attached at Appendix 1 be approved.

(2) That the Statement of Accounts 2014/15 attached at Appendix 2 be approved for signature by the Chairman.

(3) That the Letter of Management Representations attached at Appendix 3 be approved for signature by the Chairman.

**C25. ITEMS FOR REFERRAL FOR EXECUTIVE, SCRUTINY OR MANAGEMENT**

Risk Management  
Audit Committee Prospectus

**C26. EXCLUSION OF THE PRESS AND PUBLIC**

Resolved:- That, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended March 2006) (information relating to the financial or business affairs of any particular person (including the Council)).

**C27. CHILDREN AND YOUNG PEOPLE'S SERVICES RISK REGISTER**

This item was deferred due to the non-attendance of the Strategic Director.

Resolved:- That a special meeting be convened to discuss the Children and Young People's Services Risk Register.

**C28. SPECIAL MEETING**

Resolved:- That a special meeting of the Audit Committee be held on Monday, 23<sup>rd</sup> November, 2015, at 10.30 a.m. to discuss risk management/collaboration in managing risk with key partners invited to the meeting.

**C29.        DATE OF NEXT MEETING**

Resolved:- That a meeting of the Audit Committee be held on Tuesday, 24<sup>th</sup> November, 2015, at 4.00 p.m.