

**AUDIT COMMITTEE  
24th November, 2015**

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

Debra Chamberlain (KPMG) was in attendance.

Councillor Read (Leader) and Commissioner Manzie were in attendance for Minute No. 45 (Strategic Risk Register).

An apology for absence was received from Councillor Hughes.

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

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

**34. MINUTES OF THE MEETINGS HELD ON 23RD SEPTEMBER, 2015 AND ON 30TH OCTOBER, 2015**

Consideration was given to the minutes of previous meetings held on 23<sup>rd</sup> September and 30<sup>th</sup> October, 2015.

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

Further to Minute No. C20 (Annual Fraud Report 2014/15), Members were informed of the work that had taken place since the last meeting which included work with Directorates and their Anti-Fraud and Corruption systems, potential tenancy fraud and the production of a draft Cyber Security Policy.

It was noted that Members would be supplied with a self-assessment questionnaire in advance of the January meeting.

**35. AMENDMENT TO THE CONSTITUTION OF THE AUDIT COMMITTEE AND APPOINTMENT OF INDEPENDENT MEMBER**

Colin Earl, Assistant Director of Audit, ICT and Procurement, presented a report proposing an amendment to the Audit Committee's Constitution and appointment of an independent member in accordance with the Committee's new Prospectus.

Following an open advertising and recruitment process, the Chair, Vice-Chair, Interim Strategic Director of Finance and Corporate Services and the Assistant Director of Audit, ICT and Procurement interviewed and agreed the position should be offered to Bernard Coleman.

**Recommended:- That the Council be requested to:-**

**(1) Amend the Constitution of the Audit Committee to extend the membership to include a voting independent member.**

**(2) That appointments made to the position of voting independent Audit Committee member be made for a period of two years with an option to extend for one further year.**

**(3) That remuneration for the post of voting independent Audit Committee member be set at the same level as independent Standards Committee members i.e. £710 for 2015/16.**

**(4) That Bernard Coleman be appointed to the position of voting independent member on the terms set out in (2) and (3) above.**

(Bernard Coleman declared a Personal Interest in the above item and did not speak or vote thereon.)

### **36. RISK MANAGEMENT POLICY AND GUIDE**

Further to Minute No. 22 of 23<sup>rd</sup> September, 2015, Colin Earl, Assistant Director of Audit, ICT and Procurement, presented a report on the actions that had taken place these included:-

- The appointment of a temporary dedicated Risk Manager. The appointment was for a period of four months following which the Authority's long term requirements would be reviewed
- The Insurance and Risk Manager and Assistant Director of Audit, ICT and Procurement would continue to prioritise risk management amongst their duties
- Continued support from Leicester City Council's Risk Manager
- All Services had now refreshed their Risk Registers using a simpler spreadsheet based system and had confirmed that the new method was preferable to the former JCAD system which was seen as a barrier to risk management
- A series of training and awareness events had commenced in October to December, 2015
- Managers' job profiles to be amended to include responsibilities relating to risk management
- RAG status for each of the twenty actions contained within the action plan fourteen of which were rated green and six amber

Other actions included in the risk management action plan continued to be delivered on time.

Resolved:- That the Risk Management Policy and Guidance be approved

**37. KPMG ANNUAL AUDIT LETTER**

Derek Gaffney, Chief Accountant, presented the Annual Audit Letter (AAL) 2014/15 produced by KPMG LLP summarising the external audit work in relation to the 2014/15 audit plan and highlights the findings in relation to the following:

Audit of Accounts 2014/15

Value For Money Conclusion 2014/15

Any Other Matters the external auditor was required to communicate.

A copy of the AAL was attached to the report.

The main headlines from the AAL in relation to the accounts and other audit responsibilities were that:-

- The external auditor issued a qualified Value for Money conclusion on 24<sup>th</sup> September
- The Council's financial statements were produced to a good standard with the need for one audit adjustment in respect of a prior period adjustment for school land which should have been written out in 2013/14. The financial statements were given an unqualified audit opinion on 24<sup>th</sup> September before the statutory deadline of 30<sup>th</sup> September. KPMG complemented officers on the financial reporting process and in providing working papers to the expected standard and timely responses to audit queries
- The annual Governance Statement, as amended at September's Audit Committee (Minute No. C23 refers), was compliant with the CIPFA/SOLACE framework in local government
- The Council's consolidation pack prepared to support the production of Whole of Government Accounts by HM Treasury was consistent with the audited financial statements
- There were no high priority recommendations or other matters that needed to be brought to the attention of the Audit Committee

Resolved:- That the final Annual Audit Letter 2014/15 presented to the Council by its external auditors, KPMG LLP, be noted and approved for publication on the Council's website.

**38. INTERNAL AUDIT PROGRESS REPORT**

Consideration was given to a report presented by Marc Bicknell, Chief Auditor, which provided a summary of Internal Audit work and performance for the seven months ending 31st October, 2015.

Significant resources had been focussed on the audit planning process during the first part of the quarter. This was to ensure that the 2015/16 Audit Plan was compliant with the requirements of the UK Public Sector Internal Audit Standards as well as ensuring that Internal Audit was able to maximise the value and assurance provided to the Council's Executive/Commissioners together with fulfilling the statutory obligation to review and report on the Council's internal control environment.

Internal Audit provided an 'opinion' on the control environment for all systems or services which were subject to audit review which were taken into consideration when forming an overall opinion on the Council's control environment. An 'inadequate' opinion was given in any area under examination where 1 or more concerns of a fundamental nature were identified in the area.

Summary conclusions in all significant audit work concluded during the first seven months of the 2015/16 financial year were set out in Appendix 1 of the report submitted together with the audits that were at draft report stage.

Eight areas had been concluded as 'inadequate':-

- CYPS – Fostering and Adoption: Extensions and Adaptations
- CYPS – Clifton Community School
- EDS – Taxi Licensing Administration
- EDS – Integrated Housing Management System
- Public Health – Contract Compliance – GPs and Pharmacies
- Council Wide – Business Continuity Management
- CYPS – Abbey School
- EDS – Voluntary Organisation Grant Claim

Allegations of fraud, corruption or other irregularity were also investigated with details of significant investigations completed in the period set out in Appendix B.

As at 31<sup>st</sup> October, 2015, taking account of final reports and a prudent assessment of work in progress, Internal Audit had completed 40% of the 2015/16 Audit Plan. On this basis it was anticipated that 72% would be completed by the end of the financial year. Actions were being put into place to use interim resources to ensure that at least 90% of the Audit Plan could be delivered by the year end.

A further key area of concern was the Indicator relating to “Audits completed within planned time” which was also significantly behind target partially as a result of a number of complex and sensitive pieces of work taking longer than anticipated. It also highlighted an urgent need to improve the performance of the Internal Audit Team in delivering audit work within budget and elapsed time targets.

The Interim Strategic Director of Finance and Corporate Service had instructed that all audits must be completed within the days allocated other than in exceptional cases where issues were discovered during an audit that required further investigation. In such circumstances, any additional budget days must be authorised by the Chief Internal Auditor and Assistant Director of Audit, ICT and Procurement. This, together with a general strengthening of performance management and resource prioritisation, was already having a positive impact.

Discussion ensued with the following issues raised/clarified:-

- Performance was measured internally on a weekly basis together with monthly meetings with the Interim Strategic Director and Assistant Director of Audit, ICT and Procurement
- Reporting process for those areas rated ‘inadequate’
- The need to strengthen assurance arrangements where the Authority commissioned services with GPs and pharmacies
- Significant progress had been made with regard to business continuity management arrangements
- Anticipated outcome of the PwC review of Internal Audit

Resolved:- (1) That the performance of the Internal Audit Service during the seven months ending 31st October, 2015, in particular the management actions taken to improve delivery of the Audit Plan and ensuring that sufficient work was completed to provide the statutory opinion on the adequacy of the Council’s control environment, be noted.

(2) That the key issues arising from the work done in the period be noted.

### **39. EXTERNAL AUDIT AND INSPECTION RECOMMENDATIONS**

Further to Minute No. 17 of 23<sup>rd</sup> September, 2015, Michelle Hill, Performance Assurance Officer, presented a report detailing recent and current external audits and inspections including the details of arrangements that were in place regarding the accountability and governance for implementing any recommendations that arose.

The following update was given:-

Adult Social Care

- Netherfield Court (intermediate care provider) – unannounced visit took place on 7<sup>th</sup> October, 2015. The written report was awaited but verbal feedback was very positive

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- Treefields Close (Learning Disability Respite Service) – overall rating of Good awarded following an unannounced inspection on 14<sup>th</sup> and 15<sup>th</sup> July, 2015. There was one recommendation outstanding regarded a registered manger. However, the registration process of the new manager had commenced and sign off by the CQC expected by December, 2015
- Quarry Hill Road (Learning Disability Respite Service) – inspected on 11<sup>th</sup> and 20<sup>th</sup> August, 2015 and awarded an overall rating of Good with one area “is the service caring” rated as outstanding
- Overall Adult Services had a satisfactory compliance record with standards subject to inspection. Work had commenced to review current inspection governance arrangements including the stronger practices now implemented in CYPS to further strengthen its arrangements for preparing for inspections and responding to their outcomes

### Children and Young People’s Improvement Plan

- The Plan had undergone a substantial review
  - focussing on delivering the actions and outcomes in response to the twenty-six recommendations made by Ofsted (these would remain in place and “open” until the Secretary of State for the Department for Education made a decision for Rotherham to come out of intervention and was satisfied that all the requirements had been met)
  - aligned to the journey of the child, more closely to Ofsted key judgements for a “good” service and improvement priorities identified by Commissioner Newsam in the letter to the Minister in July, 2015
- Included documented evidence, progress against outcomes and stronger accountability through Assistant Directors as ‘owners’
- Performance monitored by the Children’s Improvement Board

### Rotherham’s Residential Children’s Homes

- Silverwood and Liberty House (short breaks) had current Ofsted ratings of Good
- Cherry Tree (disability) – current Ofsted rating of Requires Improvement
- Woodview – current Ofsted rating of Inadequate – closed until further notice
- St. Edmunds – current Ofsted rating of Inadequate. A further inspection to take place shortly which, given robust management action taken, an improvement was anticipated

### Economic Development Services and Housing and Neighbourhoods Services

- External peer health checks programme, led by the LGA, commenced
- The EDS Directorate had committed to review current inspection governance arrangements to further strengthen its arrangements for preparing for inspections and responding to their outcomes

Finance and Corporate Services

- The External Auditor issued a range of reports each year which were presented to the Audit Committee e.g. External Audit Plan, Annual Audit Letter
- Audit of the Council's 2014/15 claim was underway

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

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

**40. MID-YEAR REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2015/16**

Consideration was given to the report presented by the Chief Accountant (Finance and Corporate Services Directorate) that outlined a mid-year treasury review.

The Council remains under-borrowed against the borrowing requirement due to the cost of carrying debt and new borrowing would only be taken up as debt matured.

The report showed that the underlying economic and financial environment remained difficult for the Council, foremost being the improving but still challenging concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with high quality counterparties. The downside of such a policy was that investment returns remained low. The governing principle remained security over return and the criteria for selecting counterparties continued to reflect this.

The 'call' account with the top-rated bank Handelsbanken who met the Council's highest investment criteria was being used in a prudent and cautious manner to improve the expected returns for the year.

There was a statutory requirement for local authorities to set aside some of its revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement). At the 8<sup>th</sup> July, 2015, Council meeting (Minute No. 35 refers), a change to the Minimum Revenue Provision Policy for the annual MRP charges on pre-2007/98 debt applicable to the 2014/15 financial year was approved and that it was to be confirmed annually as required in respect of future years. Following further discussions with the Council's external auditor, it was proposed that further clarification should be included within the wording of the current Policy statement to have the effect that in any financial year the MRP charge will not be less than zero.

To meet regulatory requirements the report would be submitted to Commissioner Manzie's Decision Making meeting and to full Council.

Resolved: - (1) That the report on the treasury activity be noted.

(2) That the report be referred to Commissioner Manzie recommending that Council approve the changes to the 2015/2016 prudential indicators and an update to the current Minimum Revenue Provision Policy Statement by the addition of a further section (d) as follows:-

"For the sake of clarity, where MRP has been overcharged in previous years, the recovery of the overcharge will be effected by taking a MRP holiday in full or in part against future years charges that would otherwise have been made. The MRP holiday adjustment to the future years charges will be done in such a way as to ensure that:

- The total MRP after applying the adjustment will not be less than zero in any financial year
- The cumulative amount adjusted for will never exceed the amount over-charged
- The extent of the adjustment will be reviewed on an annual basis."
- be reviewed on an annual basis."

**41. CORPORATE IMPROVEMENT PLAN - PROGRESS ON GOVERNANCE RELATED ITEMS**

This item was deferred until a future meeting.

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

Strategic Risk Register

**43. 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 items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (information relating to the financial or business affairs of any person (including the Council)).

**44. FINANCE AND CORPORATE SERVICES RISK REGISTER**

Consideration was given to a report, presented by Stuart Booth, Interim Strategic Director, Resources and Transformation, concerning the review of the Directorate's Risk Register.



The report contained, as an appendix, the latest position in relation to the Finance and Corporate Services Risk Register. The Risk Register had recently been reviewed and updated to reflect the current position in relation to the Directorate and was reviewed on a monthly basis.

There were three overall categories of risk Red, Amber, Green (RAG) representing varying degrees of exposure. Each category contains a range of risk scores, resulting in varying degrees of risk within each category.

The key risk areas for the Finance and Corporate Services Directorate were:-

- Helping the Council set a budget that would enable it to deliver critical Council Services within resources available in 2015/16 and across the next 3 years
- Risks to the future level of Non-Domestic Rates income
- Ensuring appropriate information governance and security was in place
- Ensuring the Council maximises Value for Money and complied with procurement rules through an appropriate programme of contract renewals
- Ensuring electronic data storage was safe and in line with the Data Protection and Public Sector Network requirements
- Provision of professional and timely legal support to the Safeguarding Unit within CYPS
- Deliver free and fair elections
- Develop and implement a Digital Strategy
- Achieving the Council Tax collection rate target
- Achieve an effective Internal Audit function
- Deliver an effective Scrutiny function and Member Development Programme
- Minimise the revenue impact of CSE insurance claims on the Council's financial position
- Accurate and timely production of a draft Statement of Accounts and Whole of Government Accounts return

Members discussed the following salient issues:-

- Localisation of business rates
- Data storage
- Legal support to the Safeguarding Unit and increasing workloads
- Development of increased digital services
- Council Tax collection rate target
- Ongoing discussions between the Council and Policy legal advisers regarding CSE insurance claims

Resolved:- That the report be received and the contents of the Finance and Corporate Services Risk Register be noted.

**45. STRATEGIC RISK REGISTER**

Consideration was given to a report, presented by Commissioner Manzie concerning the Council's draft Strategic Risk Register.

The report contained, as an appendix, the latest position in relation to the Strategic Risk Register. Following criticism in the Casey report, work had been carried out to reinstate risk management arrangements including the production of a Strategic Risk Register. It signalled a new shaper approach involving a clearer distinction of the key risks affecting the organisation at a corporate level and ensuring cross-cutting assessment and review of key strategic tasks. The Risk Register would be updated once the Council agreed its corporate priorities.

There were three overall categories of risk Red, Amber, Green (RAG) representing varying degrees of exposure. Each category contains a range of risk scores, resulting in varying degrees of risk within each category.

The risks contained within the draft Register were:-

- Delivering the Corporate Improvement Plan
- Providing effective Children's and Adults Services
- Resources and Governance
- Rotherham, The Place (achieving the vision)
- Compliance and Resilience

Members discussed the following salient issues:-

- Addition of Emergency Planning
- Impact of a pandemic
- Community tensions
- Inclusion of achievement target date and/or statement that would give indication of such
- Compliance with the Care Act

Resolved:- (1) That the report be received and the contents of the draft Strategic Risk Register be noted.

(2) That consideration be given to the future reporting arrangements.