

**You are hereby summoned to a meeting of the Audit Committee
to be held on:-**

**Date:- Tuesday,
24th November 2015**

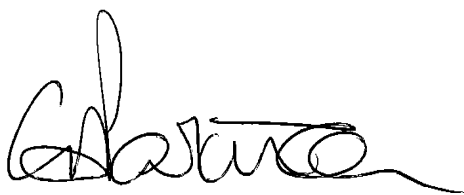
**Venue:- Town Hall,
Moorgate Street,
Rotherham. S60 2TH**

Time:- 4.00 p.m.

AUDIT COMMITTEE AGENDA

1. To consider whether the press and public should be excluded from the meeting during consideration of any part of the agenda.
2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.
3. Questions from the Press and Public
4. Minutes of the meetings held on 23rd September, 2015 and on 30th October, 2015 (Pages 1 - 17)
5. Amendment to the Constitution of the Audit Committee and Appointment of Independent Member (report herewith) (Pages 18 - 22)
 - Colin Earl, Assistant Director of Audit, ICT and Procurement, to present
6. Risk Management Policy and Guide (report herewith) (Pages 23 - 49)
 - Colin Earl, Assistant Director of Audit, ICT and Procurement, to present
7. KPMG Annual Audit Letter (report herewith) (Pages 50 - 62)
 - Derek Gaffney, Chief Accountant, to present
8. Internal Audit Progress Report (report herewith) (Pages 63 - 87)
 - Marc Bicknell, Chief Auditor, to present
9. External Audit and Inspection Recommendations (report herewith) (Pages 88 - 98)
 - Sue Wilson, Commissioning, Performance and Quality, to present
10. Mid-Year Report on Treasury Management and Prudential Indicators 2015/16 (report herewith) (Pages 99 - 118)
 - Derek Gaffney, Chief Accountant, to present

11. Corporate Improvement Plan - Progress on Governance Related Items
 - Verbal update
12. Items for Referral for Scrutiny.
13. 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 particular person (including the Council)).
14. Finance and Corporate Services Risk Register (report herewith) (Pages 119 - 128)
 - Colin Earl, Assistant Director of Audit, ICT and Procurement, to present
15. Strategic Risk Register (report herewith) (Pages 129 - 145)
 - Colin Earl, Assistant Director of Audit, ICT and Procurement, to present



CATHERINE A. PARKINSON,
Interim Director of Legal and Democratic Services.

Membership

Chair – Councillor Wyatt
Vice-Chair – Councillor Hughes
Councillors Alam, Cowles and Evans
Independent Person – Mr. B. Coleman

**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 22nd 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 15th 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 17th 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 polices 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.

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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

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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 22nd 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 26th 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 31st March, 2015. KPMG recognised there was little time available to complete the step changes necessary between the timing of the intervention (26th 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 30th 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 30th 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 31st 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 30th September that the Council's Statement of Accounts provided a true and fair view of its financial position at 31st 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 22nd 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, 23rd November, 2015, at 10.30 a.m. to discuss risk management/collaboration in managing risk with key partners invited to the meeting.

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C29. DATE OF NEXT MEETING

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

AUDIT COMMITTEE
Friday, 30th October, 2015

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

Apologies for absence were received from Advisory Cabinet Member Councillor Watson.

30. 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 Paragraphs 2 and 3 of Part I of Schedule 12A to the Local Government Act 1972 (information likely to reveal the identity of an individual/relating to the financial or business affairs of any person (including the Council)).

31. CHILDREN AND YOUNG PEOPLE'S SERVICES RISK REGISTER

Further to Minute No. 27 of the meeting of the Audit Committee held on 23rd September, 2015, consideration was given to a report, presented by the Strategic Director of Children and Young People's Services, concerning the review of the Directorate's risk register.

This report contained, as an appendix, the latest position in relation to the Children and Young People's Services risk register. The risk registers have recently been reviewed and updated to reflect the current position in relation to the Directorate and it was proposed that a full review and update will be undertaken on a quarterly basis. All Children and Young People's Services' risks were reviewed, revised and updated as necessary on the JCAD Risk Management System. As the JCAD system is to be decommissioned by the Council, all risks were migrated to the new Council spreadsheet based system to comply with corporate requirements. 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 within Children and Young People's Services risks have been streamlined to create a new register of eight risks as follows:-

1. Sustainable improvement in Children's Services;
2. Delivery of an effective Children's Services within budget;
3. Tackling Family poverty;
4. Reduce the number of Children Looked After (LAC);
5. Ensure effective education for all pupils in a rapidly changing landscape;

6. Keeping Children and Young People safe;
7. Ensure effective Local Authority support and challenge to schools and academies;
8. Ensuring an effective Children and Young People's Services workforce.

Members discussed the following salient issues:-

- it will take time to make all the necessary improvements; there have been key successes, as confirmed by Ofsted (at two improvement visits) – (i) the 'front door' of the service is good and the Multi-Agency Safeguarding Hub has achieved good performance; (ii) service use of data is helping to improve performance; (iii) child sexual exploitation – the identification of children at risk and partnership working with the Police is beginning to perform well;
- a new quality assurance process is being put in place to improve outcomes for the Authority's looked after children;
- the exclusion of pupils from school is an area of concern;
- budgetary control, commissioning and budget planning; control of the existing budget over-spend;
- a commissioning strategy to be considered by the Corporate Parenting Group; there is specific pressure from the cost of placements of Looked After Children (especially out-of-authority placements);
- the recruitment and retention of social workers; reducing the caseload of each social worker;
- rates of foster care and adoption;
- ensuring that victims of child sexual exploitation are being provided with the necessary support;
- service provision and support for children and young people with a disability;
- the public sector equality duty;
- the pace of change of the restructuring of Children and Young People's Services (including the use of Interim and Agency staff);
- specific health issues affecting children (eg: the impact of mothers' alcohol use during pregnancy; complex births); services for children with special educational needs;
- schools funding (Dedicated Schools Grant and the role of the Schools Forum);

- the development of a sufficiency strategy and encouraging service providers to operate in the Rotherham Borough area;
- the cost of support services (eg: legal advice) within the Local Authority; the use of service level agreements;
- growth bids for funding being considered by the Government-appointed Commissioners to the Council;
- targeting specific services to meet the needs of vulnerable and hard-to-reach children and young people (eg: youth work; quality impact assessments);
- partnership working with other agencies (eg: Health services; Academies);
- the risk to the whole Council of the impact of the Government's welfare reform; (eg: food banks; free school meals for Infant School pupils);
- continuing investigations of historic child sexual exploitation and the resulting Court cases;
- the impact of hate crime and racially-motivated crime on children and young people; bullying in schools; provision of support for victims.

Resolved:- (1) That the report be received and the contents of the Children and Young People's Services risk register be noted.

(2) That the risks contained in the Children and Young People's Services register continue to be the subject of management and mitigating action.

32. AUDIT COMMITTEE ISSUES - UPDATE

The Assistant Director Audit, ICT and Procurement reported on the progress of the following items:-

: the need for dedicated resources for risk management – a recruitment process continues, with interviews scheduled to take place on Friday 6th November 2015;

: the position of risk management within the Authority;

: proposed replacement of the JCAD risk management system -- consultation is taking place within the Authority about the use of a simpler spread-sheet based system; an update on this matter will be reported to the meeting of the Audit Committee to be held on 24th November 2015;

: work is progressing in respect of the production of a strategic risk register for the Local Authority;

: External audit of the Council's 2014/15 accounts (annual audit letter) – this letter will be submitted to the meeting of the Audit Committee to be held on 24th November 2015.

Summary Sheet

Council Report:
Audit Committee

Title:
Amendment to the Constitution of the Audit Committee and Appointment of Independent Member

Is this a Key Decision and has it been included on the Forward Plan?:
No

Strategic Director Approving Submission of the Report:
Stuart Booth (*Interim Strategic Director Resources & Transformation*)

Report Author(s):
Colin Earl (*Assistant Director Audit, ICT & Procurement*)

Ward(s) Affected:
None

Executive Summary:
The Constitution and any changes to it require approval by the Council. As part of the Audit Committee's 'Fresh Start', and as recommended by Commissioner Sir Derek Myers, the Audit Committee has sought to appoint an independent member, to supplement the skills and experience of Council Members.

The change to the Audit Committee structure, that any appointment of an independent member will require, and the appointment itself, will need to be approved by the Council.

Recommendation:

The Audit Committee is asked to recommend to the Council that:

- (a) the Constitution be amended to extend the membership of the Audit Committee to include a voting independent member**
- (b) appointments made to the position of voting independent Audit Committee member be made for a period of 2 years, with an option to extend for 1 further year**
- (c) 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**

(d) Bernard Coleman be appointed to the position of voting independent member on the terms set out in (b) and (c) above.

Background Papers:

Rotherham Council Constitution, Audit Committee Terms of Reference

Council meeting 22 May, Item 9; Remuneration Panel

Council meeting 22 May, Item 11; Appointments to the Audit Committee

Consideration by any other Council Committee, Scrutiny or Advisory Panel:

No

Council Approval Required:

No

Exempt from the Press and Public:

No.

Title:

Amendment to the Constitution of the Audit Committee and Appointment of Independent Member

1. Recommendation

- 1.1 The Audit Committee is asked to recommend to the Council that:
- (a) the Constitution be amended to extend the membership of the Audit Committee to include a voting independent member
 - (b) appointments made to the position of voting independent Audit Committee member be made for a period of 2 years, with an option to extend for 1 further year
 - (c) 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
 - (d) Bernard Coleman be appointed to the position of voting independent member on the terms set out in (b) and (c) above.

2. Background

- 2.1 The Audit Committee has embarked upon 'a fresh start' following the publication of the Casey Report in February 2016 and subsequent Government intervention. With the support of the lead commissioner, Commissioner Sir Derek Myers, the Audit Committee has reviewed its scope and approach and has refreshed these in a new Prospectus produced in July.
- 2.2 The Prospectus includes the following commitment:
- ... the Committee aims to strengthen its own contribution. It will:*
- ✓ *Appoint an **independent voting member** with relevant expertise that will augment the existing experience and skills ...*
- 2.3 Following an open advertising and recruitment process, in August 2015 the Chair, Vice-Chair, Interim Strategic Director of Finance and Corporate Services and the Assistant Director Audit, ICT and Procurement interviewed and agreed the position should be offered to Bernard Coleman. Bernard has considerable and relevant local government, housing and board level experience.
- 2.5 On 22 May 2015 (item 11 Council meeting), Council approved the Membership of the Audit Committee as:
- Councillor Alam
 - Councillor Cowles
 - Councillor Evans
 - Councillor Hughes (Vice-Chairman)
 - Councillor Wyatt (Chairman).

- 2.6 The Audit Committee will be required to recommended changes to the constitution to facilitate the appointment of an independent Member. These changes include recommending a revision to the membership of the audit committee, and a period of appointment and an appropriate remuneration level.
- 2.4 Bernard Coleman attended the Audit Committee meeting held on 23 September as an observer, while the relevant HR checks were being done. These have now been satisfactorily completed, and subject to the relevant changes to the Council constitution and Council's approval of the appointment, the position can be formally offered to Bernard Coleman.
- 2.7 On 22 May 2015 (item 9 Council meeting), Council approved the recommendations of the Remuneration Committee, which included an annual rate of £710 for independent members of the Standards Committee. It is proposed the same rate be paid to the independent Audit Committee Member.
- 2.8 It is common to make such appointments time limited, with typically an initial appointment of 2 years being made and an option to extend for a further year. It is proposed to make this the term offered to the independent Audit Committee Member.

4. Options considered and recommended proposal

- 4.1 The appointment of an independent member augments the existing skills of existing Members and strengthens the Audit Committee. It is, therefore, recommended to establish an independent member position within the Audit Committee.

5. Consultation

- 5.1 Commissioner Sir Derek Myers and the Council's external auditors; KPMG, were consulted on and are supportive of the proposals.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The appointment will take immediate effect after Council approval.

7. Financial and Procurement Implications

- 7.1 The annual remuneration can be accommodated within the Members' allowances budget.

8. Legal Implications

- 8.1 The proposed appointment of an independent member will require changes to the Council constitution which will require approval by Council. The appointment of any individual to the position also requires Council approval.

9. Human Resources Implications

- 9.1 Appropriate checks have been carried out on the preferred candidate and are all satisfied.

10. Implications for Children and Young People and Vulnerable Adults

10.1 The are no direct implications for Children and Young People and Vulnerable adults.

11. Equalities and Human Rights Implications

11.1 The are no direct equalities or human rights implications.

12. Implications for Partners and Other Directorates

12.1 The are no direct implications for partners or other directorates.

13. Risks and Mitigation

13.1 The appointment of a suitable skilled and experienced independent member will strengthen the review of risk management by the Audit Committee and consequently improve the Council's arrangements.

14. Accountable Officer(s):

Colin Earl (*Assistant Director Audit, ICT and Procurement*)

Approvals Obtained from:-

Strategic Director of Finance and Corporate Services: Stuart Booth

Director of Legal Services: Stuart Fletcher

Head of Procurement (if appropriate): Not Applicable

This report is published on the Council's website.

Summary Sheet

Council Report:

Audit Committee

Title:

Risk Management Policy and Guide

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report:Stuart Booth (*Interim Strategic Director Resources & Transformation*)**Report Author(s):**

Colin Earl (Assistant Director Audit, ICT & Procurement)

Ward(s) Affected:

None

Executive Summary:

At its meeting on 23 September 2015 the Audit Committee deferred its approval of the draft Risk Management Policy and Guide. The main reasons were that the Committee remained uncertain about the commitment to risk management, in particular a lack of a dedicated risk manager resource, and about the potential impact of ceasing to use the current risk management system (JCAD).

An appointment has now been made to a temporary dedicated risk manager position (this will be for a period of 4 months, following which our long-term requirements will be reviewed). All services have now refreshed their risk registers using a simpler, spreadsheet based system, and confirm this method is preferable to the former JCAD system, which was seen as a barrier to risk management.

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

As a result of these developments the Audit Committee is asked to approve the Risk Management Policy and Guide.

Recommendation:

The Audit Committee is asked to approve the Risk Management Policy and Guide

List of Appendices Included:

Appendix A: Risk Management Action Plan

Appendix B: Risk Management Policy and Guide.

Background Papers:

Report to Audit Committee; 23 September 2015, Risk Management Policy and Guide

Report to Audit Committee; 23 September 2015, Audit Committee Prospectus

Consideration by any other Council Committee, Scrutiny or Advisory Panel:

No

Council Approval Required:

No

Exempt from the Press and Public:

No.

Title:

Risk Management Policy and Guide

1. Recommendation

- 1.1 The Audit Committee is asked to approve the Risk Management Policy and Guide.

2. Background

- 2.1 The corporate improvement plan (plan reference 11.1) includes an action for the “Adoption and embedding of a practical and effective risk management framework”. This includes a key milestone to renew the corporate risk management policy and guide (completion date target: September 2015).

Risk Management Policy and Guide

- 2.2 The refreshed Risk Management Policy and Guide, attached at **Appendix 2**, was presented to the Audit Committee for approval at its meeting on 23 September. At that time, the Audit Committee felt unable to approve the Policy and Guide without further assurances from officers about resources being made available to support risk management, in order to make the Policy and Guide a reality. Specifically, the Audit Committee sought assurance:

- There would be a dedicated risk management resource put in place, at least until arrangements become embedded and consideration could be given to the long term resources needed to support risk management on an ongoing basis
- Any replacement for the JCAD system would be adopted by managers and would support, rather than hinder, risk management.

- 2.3 Since the Audit Committee meeting was held, the following steps have been taken to address these issues:

- A temporary Risk Manager has been appointment. The relevant employment checks are being carried out, and it is anticipated the individual will be able to spend some time with the Council during December, prior to commencing fully in January 2016.
- In the meantime, the Council will continue to receive support from Leicester City Council’s Risk Manager, and the Council’s Assistant Director Audit, ICT and Procurement, and Insurance and Risk Officer continue to prioritise risk management amongst their duties.
- We have rechecked users’ views of the JCAD system. There is substantial consensus that the system has not been easy to use and users prefer the new spreadsheet format. It may be that we could benefit from using JCAD or another system again in the future, but it is felt the priority currently is to engage all managers

and other staff in risk management and it seems unanimous that the spreadsheet system is the preferred option to help this.

Risk Management Action Plan

- 2.4 In the absence of a dedicated Risk Manager, the Assistant Director Audit, ICT and Procurement, and Insurance and Risk Officer, with support from Leicester City Council's Risk Manager, have continued to progress key risk management actions. It is agreed progress could be accelerated with additional capacity that could be provided by a dedicated resource, however, in the meantime, the following headway has been achieved:
- All directorates have produced refreshed operational risk registers.
 - The Audit Committee received and thoroughly considered the Children and Young People Services risk register on 30 October.
 - We are carrying out a series of training and awareness events with M3 managers; these commenced in October and will run to December.
 - A refreshed Strategic Risk Register is being presented to the Audit Committee 24 November 2015
 - Meetings are being earmarked for presentation of the strategic risk register, following its review by the Audit Committee, to Advisory Cabinet, Scrutiny and partners, facilitating broad consultation on the register.
 - Managers' Job Profiles are being amended to include responsibilities relating to risk management. The profiles being used in the current senior management recruitment process emphasise risk management responsibilities.
- 2.5 The action plan at **Appendix 1** has been updated following the Committee's meeting in September, and it now shows a RAG status for each action. Of the 20 actions in the plan, 14 are rated GREEN (completed or certain to be completed) and 6 AMBER (close to target). There are no RED (in doubt) rated actions.
- 2.6 There is still much to do. Effort will be required by all managers and staff to regularly review and consider risks, to ensure any emerging or changing risks are appropriately highlighted and addressed as soon as they arise, before they become major issues for the Council. All staff will need to reach a good level of awareness and recognition of the importance of risk management and be supported / trained to develop their confidence in identifying and assessing risks. These are the real tests of application, and we will need to critically appraise our progress in these respects in order to provide assurance to our stakeholders that risk management is becoming effective.

2.7 The Audit Committee will continue to oversee progress in relation to risk management and this should include a formal review as part of the Annual Governance process, in the early part of 2016.

4. Options considered and recommended proposal

4.1 Not applicable.

5. Consultation

5.1 The Strategic Leadership Team has reviewed and agreed the attached Risk Management Policy and Guide.

6. Timetable and Accountability for Implementing this Decision

6.1 Not applicable.

7. Financial and Procurement Implications

7.1 The costs of a dedicated Risk Manager post can be met from the Insurance Fund.

7.2 The general cost of risk falls into two categories.

- The direct cost of paying premiums to insurance companies, meeting insured claims, encouraging low cost risk improvement initiatives, supporting essential risk control measures, and associated administration of the risk management function.
- The indirect cost of service disruption associated with incidents, which amounts to many times the direct cost.

7.3 Whilst our insurance arrangements protect the Council from catastrophic loss in any given year without additional charge in that year, any overall deterioration in the Council's loss experience will have an impact on premiums for future years. It is never possible to eliminate the cost of loss, however, low incident rates can be maintained and, by proper attention to risk control and the prevention of incidents, the financial impact can be managed.

8. Legal Implications

8.1 There are no direct legal implications arising from this report. Any actions taken by the Council in response to risks identified will take into account any specific legal implications.

9. Human Resources Implications

9.1 There are no Human Resources implications associated with the report.

10. Implications for Children and Young People and Vulnerable Adults

10.1 The Strategic Risk Register incorporates the CYPS and Adults risks that are of significance at a corporate / strategic level. The services maintain their own operational risk registers and regularly assessment the management of the risks identified.

11. Equalities and Human Rights Implications

11.1 Proposals for addressing individual risks within risk registers incorporate equalities and human rights considerations where appropriate.

12. Implications for Partners and Other Directorates

12.1 The actions relating to any issues affecting partners are reflected where relevant in risk registers and accompanying risk mitigation action plans.

13. Risks and Mitigation

13.1 By driving Risk Management from both a top down and bottom up approach, and maintaining and periodically reviewing the relevant risk registers (Strategic and Operational) the Council is putting itself in a better position to highlight unacceptable risks (individually or collectively) and take appropriate action where necessary to minimise the risk of potential losses (including financial).

14. Accountable Officer(s):

Colin Earl (*Assistant Director Audit, ICT and Procurement*)

Approvals Obtained from:-

Strategic Director of Finance and Corporate Services: Stuart Booth

Director of Legal Services: Stuart Fletcher

Head of Procurement (if appropriate): Not Applicable

This report is published on the Council's website.

APPENDIX A

Risk Management Action Plan

Report Paragraph / Reference and Action	Responsible Officer	Target Date(s)	Comments / RAG Status
7.2 Risk Management Policy and Arrangements			
Produce a revised Risk Management Strategy drafted, reflecting sector good practice, to include roles and responsibilities	Insurance & Risk Manager	August 2015	COMPLETED - Revised Policy and Guide produced in August
Approval and sign off of Risk Management Strategy and Action Plan	Commissioners / SLT	September 2015	PART COMPLETED – Policy and Guide agreed by SLT and Commissioners. Approval by Audit Committee was deferred in September.
Roll out of new Risk Management arrangements to Managers, Advisory Cabinet, Scrutiny and Audit Committee.	Assistant Director Audit, ICT & Procurement	October 2015	PART COMPLETED – New Arrangements are being cascaded to managers. A briefing was provided to the Audit Committee in September. Sessions with Advisory Cabinet and Scrutiny are being set up.
Seek the inclusion of Risk Management on the corporate Performance and Development Review (PDR) Form (in either 'Corporate Priorities' or 'Other Issues' sections) to ensure regular discussion on risk involving all levels of staff within the authority.	Insurance & Risk Manager	October 2015	PART COMPLETED – Referral has been made to HR and is being considered
Seek to include wording reflecting the requirement to consider and embed Risk Management principles in job descriptions at Strategic Director / Assistant Director / M3 Manager level.	Insurance & Risk Manager	October 2015	COMPLETED – Referral has been made to HR. Job Profiles being used in the current senior management recruitment process emphasise responsibilities relating to risk management.

7.3 Strategic Risk Register			
Initial enquiries with strategic directors and directors on their initial views of strategic risks	Insurance & Risk Manager	September 2015	COMPLETED
Collate responses into a summary for presentation to SLT or SLT/directors and facilitate agreement of strategic risks to be included in the Council's risk register	Assistant Director Audit, ICT & Procurement	October 2015	COMPLETED – Workshop held on 14 October 2015
Hold a similar meeting / workshop with advisory cabinet members	Assistant Director Audit, ICT & Procurement	October 2015	A date for a workshop is being scheduled.
Consult with Commissioners on the first draft of the resulting strategic risk register	Assistant Director Audit, ICT & Procurement	October 2015	The register is due to be sent to Commissioners imminently (at 6 November)
Consulting with partners on the draft register	Assistant Director Audit, ICT & Procurement	November 2015	Meeting scheduled for presentation, on 3 December.
Consulting with M3 managers, possibly through a M3 manager session if time permits	Assistant Director Audit, ICT & Procurement	November 2015	Several meetings are being held with M3 Managers covering all directorates. This commenced in October and will run to December.
Present a refreshed Strategic Risk Register to the Audit Committee 24 November 2015	Assistant Director Audit, ICT & Procurement	24 November 2015	COMPLETED
Present the strategic risk register 6-weekly to SLT for review	Assistant Director Audit, ICT & Procurement	With immediate effect	COMPLETED – Process established
The register will be reported quarterly to the Audit Committee and Commissioners	Assistant Director Audit, ICT & Procurement	With immediate effect	COMPLETED – presentation of the strategic register is scheduled broadly on a quarterly basis in line with the Audit Committee's Prospectus.
7.4 Directorate Risk Registers			

Hold awareness and development events with all directorate managers	Assistant Director Audit, ICT & Procurement	December 2015	PART COMPLETED – Finance and Corporate Services, EDS, Adults and Public Health Completed. CYPS to be scheduled.
Strategic Directors, the Assistant Chief Executive and the Director of Public Health, along with relevant advisory cabinet members, to report their operational risks to Audit Committee on a rolling programme basis	Assistant Director Audit, ICT & Procurement	Commencing September 2015	COMPLETED – Programme established for the full year.
Initial Refresh of Directorate Risk Registers	Strategic Directors / Assistant Directors	September 2015	COMPLETED – All services submitted directorate risk registers ahead of the SLT/Directors meeting on 145 October.
Directorate Risk Registers to be updated on an ongoing basis and submitted every quarter to the Insurance & Risk Manager.	Strategic Directors / Assistant Chief Executive / Director of Public Health	Quarterly commencing January 2016	The process is being established
Present the operational risk register quarterly to SLT for review	Assistant Director Audit, ICT & Procurement	With immediate effect	The process is being established
Directorate Management Team meetings to have Risk Management / Risk Registers as a regular item, i.e. monthly	Strategic Directors / Assistant Chief Executive / Director of Public Health	With immediate effect	COMPLETED – Directorates have been advised of the requirements and are scheduling reviews accordingly

APPENDIX B



**Rotherham Metropolitan Borough
Council**

**Risk Management
Policy and Guide**



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Rotherham Council: Risk Management Policy 2015**1. Introduction**

- 1.1 Risk management is about managing threats and opportunities. By managing the Council's risks effectively we will be in a stronger position to deliver the Council's objectives.
- 1.2 This Policy commits to the application of risk management within the Council's planning and business processes and its organisation culture. It should be viewed in conjunction with the Risk Management Guide, which shows in practice how effective risk management will be achieved.

2. Corporate Improvement Plan

- 2.1 The Corporate Governance Inspection (CGI) highlighted the need to strengthen and embed risk management across the organisation. This Policy and supporting Guide recognise the context described in the CGI report. Commissioners appointed by the Secretaries of State for Communities & Local Government and Education produced an improvement plan in May 2015 that was agreed by the Council. The plan includes a requirement for reviewing, refreshing and re-launching risk management arrangements.
- 2.2 This Policy and Guide are a key part of reinstating effective risk management at Rotherham Council.

3. Approach to Managing Risks

- 3.1 Rotherham Council recognises that risk management is an integral part of good governance. Managing our risks effectively contributes to the delivery of the strategic and operational objectives of the authority. To do this:
 - We will incorporate the principles of effective risk management into existing planning and management processes, including major projects and partnerships, to achieve a degree of formality and consistency.
 - Risk management will be linked to and inform decision making across the Council.
 - We will provide appropriate training and guidance for Council Members and staff so they can carry out their roles relating to risk management
 - We will promote a risk management culture throughout the organisation and with our partners.
 - The Council's Audit Committee will have a clear role of holding the organisation and its Members and managers to account for their management of risks.

4. Appetite to Risk

- 4.1 Risk appetite is the degree to which the Council is willing to accept risk in the pursuit of its objectives. In order for the Council to achieve its objectives, some amount of risk taking is inevitable. The awareness of risk and the appropriate management of it can lead to the realisation of opportunities. In this respect, risk is not perceived as a negative concept.

4.2 Decisions will depend on the nature of the risk, the potential losses or gains, and the quality of information available pertaining to the risk in question. The Council may choose to accept risks that cannot be mitigated or reduced, but should always be able to justify its decisions based on the risk information available.

5. Roles and Responsibilities

5.1 Clear roles of responsibility have been established for the successful implementation of the Council’s Risk Management Policy. These roles are outlined in the Risk Management Guide.

6. Monitoring, Reviewing & Reporting Risks

6.1 Strategic risks will be monitored at corporate level and operational risks will be monitored and reviewed at directorate level. Risks may be promoted and demoted as part of the review processes, enabling the Council to effectively react to changes in priorities and/or risks.

7. Review

7.1. The Risk Management Policy and Guide will be reviewed on an annual basis to incorporate lessons learned, to accurately reflect the Council’s position and to continually improve its risk management arrangements.

Councillor Chris Read, Leader **Date**

Councillor Ken Wyatt, Chair, Audit Committee **Date**

Commissioner Stella Manzie, Managing Director **Date**

Rotherham Council: Risk Management Guide 2015**8. Introduction**

- 8.1 Rotherham MBC recognises that risk management is a principal element of good Corporate Governance. Effective risk management supports and underpins the achievement of key objectives set out in Rotherham's Corporate Plan, which in turn aims to improve the quality of life and services for all local people.
- 8.2 Commissioners, Members and employees are expected to play an active and positive role in embedding risk management in all activities and in the organisation culture.
- 8.3 This Risk Management Guide provides a step by step approach to the Council's delivery of effective risk management. The Guide should be viewed in conjunction with the Risk Management Policy.
- 8.4 The Guide introduces the concept of Risk and Risk Management, explains the general principles of risk management and clarifies the approach to and ownership of risk management within Rotherham Council.
- 8.5 This Guide highlights how risk management can be approached by each service area within the Council, and provides guidance on completing the individual stages of the risk management process to help services to identify, evaluate, manage, monitor and review risks.

9. Risk and Risk Management

- 9.1 A risk can be broadly defined as an event that, should it occur, will impact on the delivery of strategic / service objectives. Risks can be identified by posing three questions:
- What could go wrong?
 - Would it prevent you from delivering your plans / objectives?
 - What would the impact be on your service?
- 9.2 A risk opportunity can be defined as an uncertainty that could have a favourable impact on objectives or benefits.
- 9.3 Risk management is the process by which we identify, evaluate and manage risks and opportunities. It should be viewed as a positive and enabling process that, if embraced, can help an organisation to achieve positive outcomes from the decisions it makes.
- 9.4 Risk management should not simply become a process of identifying the negatives of why a decision, action or opportunity should not be taken as this can lead to a failure to pursue opportunities. Risk management, if used effectively, can help the Council to pursue innovative opportunities with higher levels of risk because exposure to risk is understood and managed down to acceptable levels.
- 9.5 Every organisation manages risk on a daily basis but not always in a way that is visible, repeatable and consistently applied throughout the organisation. A risk management process tries to ensure that the organisation undertakes cost-effective actions to manage and control risk to acceptable levels, through everyone following a well-defined and structured process. The aim of risk

management is to enable better decision making, by having the best understanding of the potential problems before they happen and to enable pre-emptive action to be taken.

10. Objectives of Risk Management

10.1 The Council's objectives with regard to risk management are to:

- Promote a culture of risk management at all levels of the authority to inform all strategic and operational decision making and planning
- Ensure the Council successfully manages risks and opportunities corporately, operationally and within projects and partnerships
- Ensure that all parties understand their roles and responsibilities in the implementation of effective risk management
- Ensure that risk management continues to make an effective contribution to Corporate Governance and a satisfactory Annual Governance Statement
- Provide simple, intuitive processes to assist in the identification and prioritisation of risk and the appropriate allocation of resources
- Incorporate the principles of effective risk management into all planning and management processes to achieve consistency of approach
- Provide appropriate training and guidance for all parties involved in risk management roles, to enable them to fulfil their responsibilities and ensure the benefits of good corporate governance are realised
- Encourage the identification and sharing of potential or emerging risks so that risk prevention measures to be formulated as necessary
- Regularly consult with Members and officers in order to maintain a continuous review of the effectiveness of risk management processes.

10.2 The Council recognises it is not always possible, nor desirable, to eliminate risk entirely, and so has comprehensive insurance cover that protects the Council from significant financial loss following any damages or losses.

11. Approach to Risk Management

11.1 The risk management approach is based on good practice and can be applied at all levels of the organisation. It describes the key steps for identifying and managing risks within the Council. The approach intends to promote risk management as a positive and enabling process. It can bring value and benefit to each service area within Rotherham Council, by helping to identify and deal with issues before they happen.

11.2 Rotherham utilises a five step approach in the identification and treatment of risks:



11.2.1 Step 1: Identify Risk – the identification of risk and its consequences.

It is important that all members of staff are involved in the risk management process. Managers should ensure that there is a process in place for employees to actively report any risks as and when they arise, or when the profile or size of any risk changes. Ideally, risk should be on the agenda of all team meetings at any level in the organisation and in Performance Development Reviews.

There are a number of ways that managers and staff can identify their risks:-

- **Risk Workshops** – involve all stakeholders and ensure that the forum allows open and honest discussion. It is important to allow workshops to be as open as possible with no fear of come back. All initial ideas should be recorded and then reviewed one by one.
- **One to one meetings** – with staff who are involved in the delivery of the service within the Council.
- **Learning from experience** – compare risks from similar operations – both internally and within peer groups at other authorities. Utilise any findings from recent reports by Internal Audit, regulatory bodies or Health and Safety teams; accident and incident reports; complaints; insurance claims etc.

A starting point for the identification of risk should be to examine the Council's priorities and key objectives and those identified within service plans.

The focus should then be on identifying risks (or opportunities) that are most likely to affect the performance and delivery of the Council's and/or services' priorities and their consequences.

11.2.2 Step 2: Evaluate Risk – the Assessment of the risk, based on probability of occurrence and potential impact.

The primary goal in this step is to understand the effect of the identified risks and opportunities on the achievement of objectives or delivery of service plans.

In order to decide which risks are most important and merit most attention, there needs to be some way of comparing risks relative to each other. Using a score to rate risks provides a quantitative basis for comparison and can be achieved by assessing the risk along two dimensions:

- The **likelihood** (or probability) that the risk will occur
- The **impact** (or severity) that the risk will have if it occurs.

The first evaluation should be undertaken on the 'inherent risk' i.e. the risk before any control measures have been put in place. This is to ensure that all significant risks are highlighted and assurance provided that these risks are being managed.

If risks are only assessed after controls have been put in place, known as the 'residual risk', this would be assuming that the controls would always be in place and operating, which may not be the case. Consequently, controls also need to be identified, monitored and reviewed. Both the inherent and residual risk scores are calculated using the following equation:

Likelihood score x Impact score

The Council has adopted a 5 x 5 risk matrix, as defined below.

LIKELIHOOD	Almost Certain 5	5	10	15	20	25
	Very Likely 4	4	8	12	16	20
	Likely 3	3	6	9	12	15
	Possible 2	2	4	6	8	10
	Unlikely 1	1	2	3	4	5
		Insignificant 1	Minor 2	Significant 3	Major 4	Catastrophic 5
IMPACT						

The overall risk score should be used to prioritise risks and to make decisions regarding the significance of the risk; how they should be treated; how quickly action needs to be taken and at what cost. The prioritisation is shown below

LEVEL OF RISK	OVERALL RATING	HOW THE RISK SHOULD BE TACKLED/ MANAGED
High Risk	15-25	IMMEDIATE MANAGEMENT ACTION
Medium Risk	9-12	Plan for CHANGE
Low Risk	1-8	Continue to MANAGE

11.2.3 Step 3: Management – the identification of control measures required and the allocation of appropriate Action Managers.

Once the risks have been identified and assessed, appropriate management action needs to be taken. The 'Four Ts' is the generic approach that can be used when planning how to manage a risk or opportunity:

- **Tolerate** - The risk is accepted making limited, if any, efforts to mitigate it or reduce its likelihood / impact. This may be because the cost of mitigation exceeds the consequences of the risk.
- **Transfer** - The risk rating is reduced by transferring the risk to a third party by changing contractual terms. Typically this would mean the Council discontinuing the activity that gives rise to the risk, and sub-contracting / outsourcing that activity to another organisation. Alternatively, the Council can limit the consequences by obtaining insurance cover above acceptable levels of risk.
- **Treat** - Actions will be taken to reduce the risk, possibly by putting in additional controls.
- **Terminate** - The activity that gives rise to the risk will cease, be avoided or altered, thus eliminating the risk.

With the exception of risks where it is decided to take a 'tolerate' approach, it is critical that each risk is allocated an Owner who has ultimate responsibility (accountability) for the risk. The role of the Owner involves regularly monitoring the risk status and adjusting risk ratings accordingly, based on current information / intelligence and knowledge.

Mitigating actions (**Control Measures**) will need to be developed in order to effectively manage the risk, allocated to appropriate Action Managers and monitored regularly for compliance / implementation by the risk Owner.

The risk, the risk profile and the mitigating actions against each activity are recorded collectively in risk registers.

It is also possible that risks in one service area can have an impact on other areas of the organisation. It is important to be aware that actions to manage a risk in one area may create or increase a risk in another area. Consideration and communication of any possible impacts on other areas is essential.

11.2.4 Step 4: Monitor Risk – ensure the controls measures are working effectively or amend accordingly.

This is a key stage of the risk management process. Risk Owners should ensure that the identified Control Measures are working effectively. In doing so, it may be useful to ask the following questions:

- **Have the chosen control measures been implemented as planned?**
 - Are the identified Control Measures in place?
 - Are these measures being used properly?
- **Are the chosen Control Measures working?**
 - Have the changes made to manage exposure to the assessed risks resulted in what was intended?

- Has exposure to the assessed risks been eliminated or adequately reduced?
- Have there been any 'near misses' and have any 'lessons learned' been applied?
- Do any new controls need to be introduced?
- **Are there any new problems?**
 - Have the implemented control measures introduced any new problems?
 - Do the existing controls need to be reviewed and updated?

It is necessary to monitor and to report on the progress in managing risks so that the achievement of objectives is maximised and losses are minimised. In addition, the effectiveness of risk management controls to reduce the likelihood / impact of adverse risks occurring needs to be assessed and alternative controls introduced if the identified controls are proving ineffective.

When reviewing registers / risks it should also be ensured that the risk scores are still accurate. Are the red rated risks still red and the green rated risks still green? The focus should always be on **all** risks and not just on red or amber rated risks with the aim of identifying and preventing any risks from becoming a high (red) risk issues.

11.2.5 Step 5: Review & Report – Regular review of risks by Risk Owners to ensure continued validity. Report risks to the appropriate level of management and / or forum.

Corporate and service priorities will change over time. These changes may affect risks and opportunities and, therefore, need to be reviewed regularly by asking the following questions:

- Are my risks still the same?
- Are there any new risks arising?
- Has the risk been controlled effectively by the action taken to reduce or eliminate it?
- Has the action (or lack of actions) affected the overall impact (score) of the risk?
- Are there any other controls required? If so, what are they?

Risk registers should be live documents and changes should be updated promptly.

Risk management should be included as an agenda item on Directorate Management Team meetings at least once a quarter.

The Strategic Risk Registers are reviewed quarterly. Increasing or emerging risks may also be elevated to strategic level to allow the Council to react effectively to changes in priorities.

The quarterly review process will inform the contents of reports to the Strategic Leadership Team, Commissioners and the Audit Committee.

Risk management is a continuous cycle designed not only to identify, evaluate, manage, monitor and review risks, but also to support the strategic planning process. The strategic planning process and risk registers should be used as part of the budgetary decision making process.

12. Documentation

- 12.1 Risk will be recorded on standard documentation and held on a central Sharepoint site, which will provide access to all risk owners and managers and ensure one version of each risk is maintained and can be easily updated. An example of a risk recording form is held at **Appendix A**.
- 12.2 Risks will be presented in a consistent and uniform way. An example of a summary risk register is attached at **Appendix B** and a detailed register at **Appendix C**.

13. Leadership, Roles and Responsibilities

- 13.1 Risk management should not be perceived as the responsibility of a small number of people. Where risk management is fully integrated into the culture and day to day working, everyone has a role to play and this is what Rotherham aims to achieve.

- 13.2 The expectations of Members, Commissioners and officers are as follows:

Executive	<ul style="list-style-type: none"> • Overall responsibility for ensuring the Council has in place effective risk management arrangements. • Lead in promoting a risk management culture within the Council and, where appropriate, with partners and stakeholders. • Regularly receive reports on risks and risk management and obtain assurance over the effective application of risk management.
Commissioners	<ul style="list-style-type: none"> • Approve the Council's Risk Management Policy and Guide. • Consider risk management implications when making decisions. • Agree the Council's actions in managing its high risks. • Receive regular reports on risk management activities.
Audit Committee	<ul style="list-style-type: none"> • Receive regular reports on risk management activities. • Approve an annual statement on the effectiveness of the Council's risk controls as part of the Annual Governance Statement. • Consider the effectiveness of the implementation of the Risk Management Policy • Carry out 'deep-dive' reviews into service risk registers and services' management of risks.
All Councillors	<ul style="list-style-type: none"> • To consider and challenge risk management implications as part of their roles.
Commissioner Managing Director	<ul style="list-style-type: none"> • Champion risk management arrangements • Ensure all risk management processes are completed • Issue directions with regard to risk management.

Strategic Directors / Assistant Chief Executive / Director of Public Health / SLT	<ul style="list-style-type: none"> • Responsibility for leading and managing the identification of significant strategic risks and the Strategic Risk register. • Ensure that there is a robust framework in place to identify, monitor and manage the Council's strategic risks and opportunities. • Ensure that the measures to mitigate these risks are identified, managed and completed within agreed, time-scales, ensuring that they bring about a successful outcome. • Promote a risk management culture within the Council and, where appropriate, with partners and stakeholders. • Ensure the requirement for all SLT reports, business cases and major projects to include risk assessments is met. • Ensure risk is considered as an integral part of service planning; performance management; financial planning; and, the strategic policy-making process. • Consider risk management implications in reports regarding strategic decisions. • Ensure that appropriate advice and training is available for all Members and staff. • Ensure that resources needed to deliver effective risk management are in place.
Directorate Management Teams	<ul style="list-style-type: none"> • Responsibility for leading and managing the identification of significant operational risks from all operational areas. • Ensuring that the measures to mitigate these risks are identified, managed and completed within agreed timescales, ensuring that they bring about a successful outcome. • Lead in promoting a risk management culture within the Directorate.
Assistant Directors	<ul style="list-style-type: none"> • Escalate risks / issues to the relevant Strategic Directors, where appropriate. • Ensure there is a clear process for risks being managed by their managers. • Embed risk management within the service areas they are responsible for. • Ensure compliance with corporate risk management standards. • Ensure that all employees, volunteers, contractors and partners are made aware of their responsibilities for risk management and are aware of the lines of escalation of risk related issues.
Assistant Director Audit, ICT and Procurement	<ul style="list-style-type: none"> • Provide facilitation, training and support to promote an embedded, proactive risk management culture throughout the Council.

	<ul style="list-style-type: none"> • Assist Strategic Directors, the Assistant Chief Executive, the Director of Public Health and Assistant Directors in identifying, mitigating and controlling risks. • Maintain the Strategic Risk Register of the Council's most significant risks. • Ensure that risk management records and procedures are properly maintained, decisions are recorded and an audit trail exists. • Ensure an annual programme of risk management training and awareness is established and maintained. • Review External and Internal Audit recommendations relating to risk management to ensure these are picked up and dealt with by the business.
All Employees	<ul style="list-style-type: none"> • Have an understanding of risk and their role in managing risks in their daily activities, including the identification and reporting of risks and opportunities. • Support and undertake risk management activities as required. • Attend relevant training courses focussing on risk and risk management.

14. Risk Assurance, Monitoring and Reporting

14.1 Rotherham's risk management function is routinely exposed to full scrutiny and validation:

- In the Annual Governance Statement that is signed off by the Leader and Managing Director and endorsed by the Audit Committee
- Commissioners and elected Members hold SLT accountable for the effective management of principal risks
- SLT, Commissioners and the Audit Committee monitor the delivery of the Risk Management Policy by receiving regular reports and/or presentations. As part of this process All Strategic Directors, the Assistant Chief Executive, Director of Public Health and Assistant Directors review their own risks and update them accordingly
- Risk management arrangements across the Council are independently reviewed for effectiveness on an annual basis by Internal Audit in order to inform the signing off of the Annual Governance Statement
- Service and Operational risks are monitored and reviewed at Directorate level and may be elevated to corporate level if deemed necessary
- There is a formal reporting structure for advising SLT, Commissioners and elected Members of any risk management implications. The Council's reports template requires the completion of a section entitled Risks and Uncertainties in every report.

15. Communication

15.1 Effective communication is integral to the identification of new threats and opportunities or changes in existing risks.

15.2 It is important for strategic leaders and managers to engage with staff across the Council to ensure that:

- Everyone understands the Council's risk policy, risk appetite and risk process in a way that is appropriate to their role. If this is not achieved, effective and consistent embedding of risk management will not be realised and risk priorities may not be addressed
- Everyone understands the benefits of effective risk management and the potential implications if it is not done or is done badly
- Each level of management actively seeks and receives appropriate and regular assurance about the management of risk within their control. Effective communication provides assurance that risk is being managed within the expressed risk appetite, and that risks exceeding tolerance levels are being escalated
- Any organisation providing outsourced services to the Council has adequate risk management skills and processes. Gaining assurance that a partner organisation has embedded risk management processes in place, and that responsibilities are clearly defined from the start, should help to avoid misunderstandings and any serious problems.

16. Performance Management

16.1 Risk management should form an integral part of the Council's Performance Management Framework. Awareness of potential risks that could impact the achievement of Council priorities and objectives, and planning for such possibilities, will contribute to the successful delivery of the objectives.

16.2 Risks associated with the delivery of the Corporate Plan are included in the Strategic Risk Register reports. These reports then go to SLT, the Audit Committee and Commissioners.

17. Corporate Governance

17.1 Managing risk is integral to Rotherham's good Corporate Governance processes. It is a key feature in the production of the Annual Governance Statement that is signed by the Leader and Managing Director.

17.2 There is high level risk management representation on the Strategic Leadership Team (Managing Director) and at Member level (*to be agreed*). They are the leads for risk management.

17.3 The Assistant Director Audit, ICT & Procurement is responsible for drafting the Annual Governance Statement and evaluating risk management assurances and supporting evidence.

18. Guidance and Training

18.1 The Council's Insurance & Risk Section is responsible for providing advice and training in respect of the Council's risk management arrangements.

18.2 All Strategic Directors, the Assistant Chief Executive and Director of Public Health, and their Management Teams should receive training in risk identification, analysis and control of risk. Risk Workshops can be used as a prime method of educating and training managers in identifying and managing risks to their objectives. This approach can assist in creating a 'risk aware' culture.

18.3 Bespoke risk management training from external providers (Gallagher Bassett; Zurich Municipal) can be provided free of charge via Risk Control Days for targeted areas of risk, e.g. Schools, Health & Safety, Highways, Control of Legionella, Asbestos Awareness.

18.4 A risk management E-Learning package is accessible to all staff and Members on the Intranet.

19. Further Information

19.1 For further information on the Risk Policy and Guide or any risk management arrangements please contact either:

Colin Earl	Assistant Director Audit, ICT & Procurement	Ext. 22033
Andrew Shaw	Insurance & Risk Manager	Ext. 22088

Appendix A: Risk Recording Form

Finance & Corporate Services - Risk Assessment/Register													
Risk Register Owner: Stuart Booth							Date completed: 24/07/2015						
Business Objective <i>What is it you would like to achieve/need to deliver</i>	Risk <i>What is the problem/hazard? What is it that will prevent you from meeting your objectives?</i>	Consequence /effect: <i>what would actually happen as a result? How much of a problem would it be? To whom and why?</i>	Existing actions/controls <i>(What are you doing to manage this now?)</i>	Risk Score with existing measures <i>(See Scoring Table)</i>			Further management actions/controls required. <i>(What would you like to do in addition to your existing controls?)</i>	Target Score with further management actions/controls required <i>(See Scoring Table)</i>			Cost (of Impact; of current controls; of further controls)	Risk Owner <i>(Officer responsible for managing risk and controls)</i>	Risk Review Date
				Impact	Probability	Risk Rating (I x P)		Impact	Probability	Risk Rating (I x P)			
To deliver free and fair elections in which all participants are satisfied that the result is accurate and which allows no opportunity for challenge.	Inability to comply with legislative and statutory election duties.	Election Failure - legal challenge in high court and associated costs of re-running the election and reputational damage. Business continuity issues such as loss of ICT function and /or office accommodation / count venue and / or polling stations	Strong links with internal ICT teams to ensure ICT systems are restored immediately. Training and awareness programme for staff. BCP in Place.	5	3	15	Alternative manual systems have been developed as a back up and can be implemented at short notice. OR Training and awareness programme for staff. BCP in Place.	3	3	9	There are no costs associated with the controls. Costs will be incurred when actioned.	Mags Evers	Dec-15

Appendix B: Strategic and Operational Risk Register Overview

Strategic Risks						
Risk Detail	Risk Owner	Qtr 1 2015/16 Rating	Qtr 2 2015/16 Rating	Movement between Qtrs	Target Rating (Risk Appetite)	Target Date Agreed by SLT
Introduction of £72k lifetime social care payments cap from 01/04/16 will place additional workload burden on service and may increase costs.	Robert Cutts	20	20	-	9	April 2016
Council do not respond to media issues correctly or appropriately.	Mandy Atkinson	20	20	-	9	November 2015
Sensitive and confidential information/data is not properly protected.	Stuart Fletcher	20	20	-	6	November 2015

Operational Risks						
Risk Detail	Risk Owner	Qtr 1 2015/16 Rating	Qtr 2 2015/16 Rating	Movement between Qtrs	Target Rating (Risk Appetite)	Target Date Agreed by SLT
Threat posed by cyber-attack, e.g. potential violation of site and customer data by hackers.	Jon Ashton	12	12	-	8	October 2015
Loss of NNDR income to the authority which has already been included in budgets.	Robert Cutts	12	12	-	6	April 2016
Statutory FOI and DPA timelines are not met.	Gary Walsh	12	12	-	4	October 2015
Internal Audit failing to produce a risk-based plan means required levels of assurance cannot be given to Directors; Members and the Public.	Marc Bicknell	12	12	-	4	September 2015

Appendix C: Risk Register template example

Strategic Risks								
Business Objective	Risk Detail	Consequence / Effect	Impact	Likelihood	Risk Rating	Risk Owner	Further Mitigating Actions	Current Risk Rating Heat Map
Social care payments cap	Introduction of £72k lifetime social care payments cap from 01/04/16 will place additional workload burden on service and may increase costs.	Authority may have to meet a higher percentage of care costs; level of risk still unknown as additional funding from central government unknown at present.	5	4	20	Robert Cutts	Monitor situation with finance until further information is known.	<p>Likelihood</p> <p>Impact</p>
Dealing effectively with high profile media issues.	Council do not respond to media issues correctly or appropriately.	Failure to deal with media issues may damage the reputation of the authority and the Communications Team; possibility of slander claims and associated financial risk.	5	4	20	Mandy Atkinson	Continue to monitor cases and introduce revised ways of working as appropriate.	<p>Likelihood</p> <p>Impact</p>
Act appropriately to maintain required levels of performance with respect to data protection and confidentiality issues	Sensitive and confidential information/data is not properly protected.	Failure to deal with media issues may damage the reputation of the authority and the Communications Team; possibility of slander claims and associated financial risk.	5	4	20	Stuart Fletcher	Continue to monitor breaches and near misses and introduce revised ways of working accordingly. Consider an authority-wide training programme.	<p>Likelihood</p> <p>Impact</p>

Summary Sheet

Council Report Audit Committee

Title

Annual Audit Letter – 2014/15

Is this a Key Decision and has it been included on the Forward Plan?

This is not a key Decision on the basis that no approval is being sought to vary the Council's budget nor has any impact on local communities living.

Strategic Director Approving Submission of the Report

Acting Strategic Director of Finance & Corporate Services

Report Author(s)

Derek Gaffney (Chief Accountant)
Finance & Corporate Services Directorate
01709 822005 derek.gaffney@rotherham.gov.uk

Ward(s) Affected

All

Executive Summary

The purpose of the Annual Audit Letter (AAL) is to communicate to the Council and key external stakeholders, including members of the public, in a clear and concise manner, the key issues arising from the audit which the external auditor considers should be brought to the attention of the Council.

The AAL 2014/15 summarises 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 is required to communicate.

A copy of the KPMG's AAL is attached to this report.

Recommendation

It is recommended that:

Audit Committee considers the Final Annual Audit Letter 2014/15 presented to the Council by its external auditors, KPMG LLP, and approves its publication on the Council's website.

List of Appendices Included

KPMG's Annual Audit Letter – 2014/15

Background Papers

None

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

No

Exempt from the Press and Public

No

Annual Audit Letter – 2014/15

1. Recommendation

1.1 It is recommended that:

Audit Committee considers the Final Annual Audit Letter 2014/15 presented to the Council by its external auditors, KPMG LLP, and approves its publication on the Council's website.

2. Background

2.1 The purpose of the Annual Audit Letter (AAL) is to communicate to the Council and key external stakeholders, including members of the public, in a clear and concise manner, the key issues arising from the audit which the external auditor considers should be brought to the attention of the Council.

3. Key Issues

3.1 The Annual Audit Letter 2014/15 attached as Appendix 1 is KPMG's summary of audit work for the 2014/15 financial year. It summarises 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 is required to communicate.

3.2 The AAL briefly summarises the key messages of the external auditor's work which have previously been reported to Audit Committee in more detail during the course of the year including within the ISA 260 Report presented to Audit Committee on 23 September 2015 immediately prior to the 2014/15 Statement of Accounts being approved.

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

- The external auditor issued a qualified Value For Money (VFM) conclusion on 24 September. The following VFM risks were identified:
 - Governance Arrangements
 - Financing Child Sexual Exploitation Claims
 - Budget Pressures

Bearing in mind that the Commissioners were appointed in 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 issued a qualified VFM conclusion in respect of 2014/15.

It is also important to note that it is recognised that the Commissioners have developed a robust Improvement Plan and are in the process of implementing a series of initiatives to strengthen the corporate governance arrangements in line with the Improvement Plan which will be fundamental in re-establishing the essential component parts of an effective, modern local authority. The progress made so far and that anticipated over the remainder of 2015/16 will be considered by the Auditor in forming the 2015/16 VFM conclusion.

- 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 September before the statutory deadline of 30 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, is 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; and,
- There are no high priority recommendations or other matters that need to be brought to the attention of the Audit Committee

4. Options considered and recommended proposal

4.1 There are no options to be considered as part of this report.

5. Consultation

5.1 No consultation is required.

6. Timetable and Accountability for Implementing this Decision

6.1 No decision requiring implementation is required as part of this report.

7. Financial and Procurement Implications

- 7.1 As set out in Appendix 2 to the AAL, the external audit fee for 2014/15 of £187,770 is £1,470 above the planned audit fee due to work on the National Non-Domestic Rates return.
- 7.2 The final fee for the on-going work on the certification of the Council's housing benefit claim has still to be confirmed.
- 7.3 Additional certification work is being undertaken on three returns/claims and although the fees are still to be agreed these are not expected to exceed £8k

8. Legal Implications

- 8.1 The Council has complied with all statutory requirements in relation to the issues covered by the AAL. Following consideration of the AAL the Council is required to publish the AAL on the Council website. There are no further legal implications arising from the report.

9. Human Resources Implications

- 9.1 There are no Human Resource implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11. Equalities and Human Rights Implications

- 11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

- 12.1 There are no implications arising from this report to Partners or other directorates.

13. Risks and Mitigation

13.1 It is recognised that the implementation of a series of initiatives to strengthen the corporate governance arrangements in line with the Improvement Plan which will be fundamental in re-establishing the essential component parts of an effective, modern local authority. The progress made so far and that anticipated over the remainder of 2015/16 will be considered by the Auditor in forming the 2015/16 VFM conclusion.

14. Accountable Officer(s)

Stuart Booth (Acting Strategic Director of Finance & Corporate Services)

Approvals Obtained from:-

Acting Strategic Director of Finance & Corporate Services:- Stuart Booth

Director of Legal Services:- Stuart Fletcher



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Annual Audit Letter 2014/15

Rotherham Metropolitan Borough
Council

29 October 2015



The contacts at KPMG in connection with this report are:

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Report sections

- Headlines

Appendices

1. Summary of reports issued
2. Audit fees

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies* summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. . If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, the lead contact work under our contract with Public Sector Audit Appointments Limited. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This report summarises the key findings from our 2014/15 audit of Rotherham Metropolitan Borough Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2014/15 financial statements and the 2014/15 VFM conclusion.

<p>VFM conclusion</p>	<p>We issued a qualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 24 September 2015. This means that we have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2015.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.</p>
<p>VFM risk areas</p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>We identified the following VFM risks in our External audit plan 2014/15 issued in July 2015:</p> <ul style="list-style-type: none"> ■ Governance Arrangements; ■ Financing Child Sexual Exploitation Claims; and ■ Budget Pressures. <p>We worked with officers throughout the year to discuss this VFM risk and our detailed findings were reported in the ISA260.</p> <p>We identified the following significant matters:</p> <ul style="list-style-type: none"> ■ The 'Report of Inspection of Rotherham Metropolitan Borough Council' (the Inspection) was only published in February 2015, which led to the Government appointing five Commissioners on the 26th February 2015 to take on all executive responsibilities at the Council. In March, the Commissioners launched the 'Statement of Rotherham Commissioners' mission': "To help the Council secure a safe environment for children and ensure good, sustainable services and regulation such that healthy democratic leadership and accountability can be restored". The mission included twelve key outcomes which have been published. Given that the VFM assessment is for the year ended 31st March 2015, there was only a very limited opportunity for Commissioners to make the changes required towards achieving the mission. Although not covered by the 2014/15 VFM assessment, the Authority has made progress over the six months to the date of this report. The Authority has developed and published a children's improvement plan and a comprehensive corporate improvement plan (A Fresh Start) which address the findings of the Inspections and Commissioners have recently presented an interim (6 monthly) report to DCLG to show the progress made in that period. We will consider and review this progress as part of our VFM conclusion work in 2015/16.
<p>Audit opinion</p>	<p>We issued an unqualified opinion on the Authority's financial statements on 24 September 2015. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>

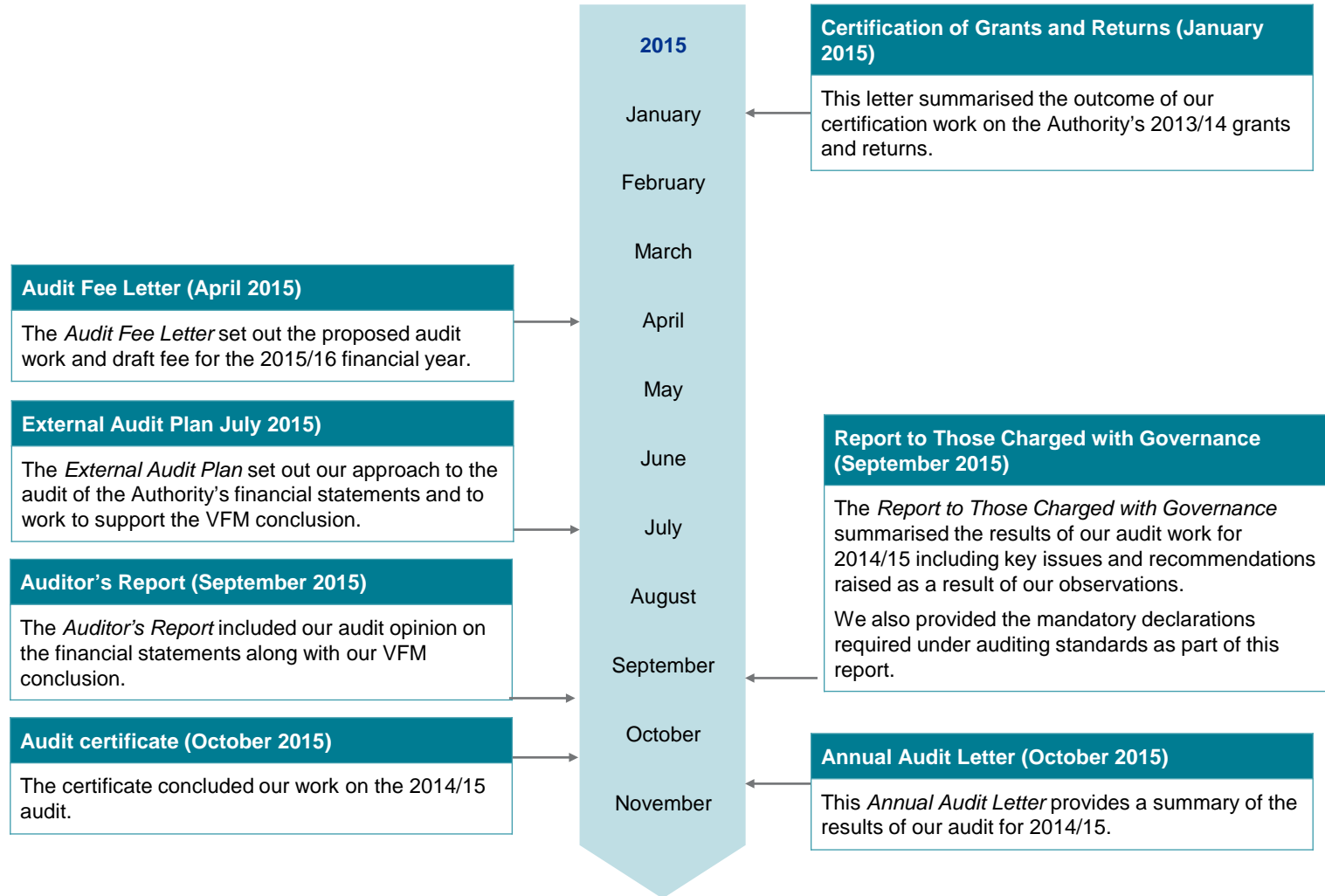
All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

Financial statements audit	<p>Our audit has identified a prior period adjustment totalling £16.3m relating to school land that should have been written out of the balance sheet in 2013/14. This is due to clarification in guidance during the year that land associated with schools which have converted to an academy should be removed rather than retained on the Council's balance sheet. This is a technical accounting adjustment and overall has nil impact on the 2014/15 financial statements.</p> <p>The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. The quality of working papers provided was good and in the main met the standards specified in our Accounts Audit Protocol.</p> <p>We did not identify any further significant adjusted or unadjusted audit differences. We identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code'). The Authority addressed all significant changes.</p>
Annual Governance Statement	<p>We reviewed your Annual Governance Statement and concluded that it was consistent with our understanding.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.</p>
Certificate	<p>We issued our certificate on 14 October 2015. The certificate confirms that we have concluded the audit for 2014/15 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i>.</p>
Audit fee	<p>Our fee for 2014/15 was £187,770, excluding VAT. Further detail is contained in Appendix 2.</p>

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for the 2014/15 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2014/15 planned audit fee.

External audit

Our final fee for the 2014/15 audit of the Authority was £187,770 which is above the planned fee by £1,470 which relates to the National Non-Domestic Rates return.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2016.

Other services

For 2014/15 we are undertaking certification work on the Teachers Pensions Agency return, the Pooling of Housing Capital Receipts return and the Local Authority Major Schemes grant claim. These fall outside of the Public Sector Audit Appointment's certification regime. Whilst fees are still to be agreed they should not exceed £8k.



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Council Report

Audit Committee Meeting

TitleInternal Audit Progress Report For Seven Months Ending 31st October 2015.**Is this a Key Decision and has it been included on the Forward Plan?**

No.

Strategic Director Approving Submission of the Report

Stuart Booth, Strategic Director, Finance and Corporate Services.

Report Author(s)

Marc Bicknell, Chief Internal Auditor

Internal Audit, Finance and Corporate Services

Tel: 01709 823297 Email: marc.bicknell@rotherham.gov.uk

Ward(s) Affected

All wards.

Executive Summary

This report provides a summary of Internal Audit work completed during the seven months ending 31st October 2015 and the key issues that have arisen from it. It also provides information regarding the performance of the Internal Audit function during the period.

Recommendations

The Audit Committee is asked to:

- i) Note the Internal Audit work undertaken during the seven months ending 31st October 2015 and the key issues that have arisen from it.
- ii) Note the information contained regarding the performance of Internal Audit during the period, in particular the management actions taken to improve delivery of the Audit Plan and ensure that sufficient work is completed to provide the statutory opinion on the adequacy of the Council's control environment.

List of Appendices IncludedAppendix 1 – Internal Audit Progress Report For Seven Months Ending 31st October 2015.

Appendix A – Summary of Issues Arising From Audit Work Undertaken.

Appendix B – Responsive Audit Work / Investigations.

Appendix C – Analysis of Audit Recommendations Made, Agreed and Implemented.

Background Papers

UK Public Sector Internal Audit Standards.

Accounts and Audit (England) Regulations 2015.

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No.

Council Approval Required

No.

Exempt from the Press and Public

No.

Title: Internal Audit Progress Report For Seven Months Ending 31st October 2015

1. Recommendations

The Audit Committee is asked to:

- 1.1 Note the Internal Audit work undertaken during the seven months ending 31st October 2015 and the key issues that have arisen from it.
- 1.2 Note the information contained regarding the performance of Internal Audit during the period, in particular the management actions taken to improve delivery of the Audit Plan and ensure that sufficient work is completed to provide the statutory opinion on the adequacy of the Council's control environment.

2. Background

- 2.1 Internal Audit produced a risk based Annual Audit Plan in accordance with the UK Public Sector Internal Audit Standards. This was received by the Audit Committee at its meeting on 5th May 2015. The Plan is regularly reviewed and monitored during the year so that it provides sufficient coverage of the key risks facing the Council.
- 2.2 During the year the Audit Committee receives periodic updates on the work of Internal Audit and a summary of the key issues that have arisen. This report summarises Internal Audit activity at the half-year stage, but due to the timing of the Audit Committee in late November, it incorporates details of audits completed during the seven months ending 31st October 2015.
- 2.3 The report is attached at Appendix 1. It includes the following information:
 - Summary of the audit planning process.
 - Audit work undertaken during the period, including both planned and responsive / investigatory work.
 - Analysis of audit recommendations made and agreed and status of implementation.
 - Internal Audit performance indicators.

3. Key Issues

- 3.1 We assessed the control environment to be inadequate in the following areas subject to audit:
 - 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.

3.2 We can confirm that an Action Plan has been agreed with management in respect of all final audit reports issued. It is also pleasing to note that most services and functions are making good progress with the implementation of audit recommendations.

3.3 Internal Audit is behind where we need to be in delivery of the Audit Plan. It has been identified that the performance of the Internal Audit team needs to be improved in order to ensure the delivery of sufficient Audit Plan work to enable the Director of Audit, ICT and Procurement as Chief Audit Executive to produce an evidence based opinion on the Council's control environment for the 2015/16 year. We are currently finalising a plan to use further interim resources to ensure that at least 90% of the Audit Plan can be completed by the year-end. Details of this will be brought to the January 2016 Audit Committee.

3.4 Public Sector Internal Audit Standards require that an external assessment of the Internal Audit function must be undertaken at least once every five years. This is currently being carried out by PricewaterhouseCoopers. The findings and conclusions arising from the assessment, together with management actions to address these, will be reported to the January Audit Committee meeting.

4. Options considered and recommended proposal

4.1 This report is presented to enable the Audit Committee to fulfil its responsibility for overseeing the work of Internal Audit. It provides a summary of Internal Audit work completed and the key issues arising from it for the seven months ending 31st October 2015 and information about the performance of the Internal Audit function during this period.

5. Consultation

5.1 All Internal Audit reports referred to in this report have been discussed and agreed with the appropriate Service Manager and Assistant Director and have also been issued to the appropriate Strategic Director.

6. Timetable and Accountability for Implementing this Decision

6.1 The Audit Committee is asked to receive this report at its November 2015 meeting.

7. Financial and Procurement Implications

7.1 There are no direct financial or procurement implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Finance and Corporate Services Directorate.

8. Legal Implications

8.1 The provision of Internal Audit is a statutory requirement for all local authorities that is set out in the Accounts and Audit (England) Regulations 2015. These state:

“each principal authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

8.2 Internal Audit also has a role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are:

“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”

9. Human Resources Implications

9.1 There are no direct Human Resources implications arising from this report.

10. Implications for Children and Young People and Vulnerable Adults

10.1 This document constitutes a report of progress against delivery of the Internal Audit Plan 2015/16. A significant proportion of the Plan is devoted to the examination of risks facing Children and Young People’s Services and Adult Social Care.

11 Equalities and Human Rights Implications

11.1 There are no direct Equalities and Human Rights Implications arising from this report.

12. Implications for Partners and Other Directorates

12.1 Internal Audit is an integral part of the Council’s Governance Framework, which is wholly related to the achievement of the Council’s objectives, including those set out in the Corporate Improvement Plan and Children’s Services Improvement Plan.

13. Risks and Mitigation

13.1 The following risks have been identified.

Risk	Likelihood	Impact	Mitigation
Internal Audit may not deliver sufficient audit work to enable an opinion to be provided on the Council's control environment.	H	H	Clear instruction has been given by the Strategic Director, Finance and Corporate Services, that all audits must be completed within the days allocated other than in exceptional cases where issues are discovered during an audit that require further investigation. In these cases, any additional budget days required must be authorised by the Chief Internal Auditor and Assistant Director, Audit, ICT and Procurement. This measure, alongside a general strengthening of performance management and resource prioritisation, is already having a positive impact. A report on progress will be brought to the January 2016 Audit Committee.
Audit recommendations may not be implemented, leaving the Council exposed to risk.	L	H	Internal Audit has an established process for the follow up of implementation of agreed audit recommendations. This includes escalation to the appropriate Assistant Director and Strategic Director in case of non-compliance.

14. Accountable Officer(s)

Colin Earl, Assistant Director of Audit, Procurement and ICT.

Marc Bicknell, Chief Internal Auditor.

Finance and Corporate Services Directorate

Appendix 1:

Internal Audit Progress Report For Seven Months Ending 31st October 2015

1. Purpose of the Report.

- 1.1 To provide a summary of Internal Audit work completed and the key issues arising from it for the seven months ending 31st October 2015.
- 1.2 To provide information regarding the performance of the Internal Audit function during the period.

2. Introduction.

- 2.1 Internal Audit produced a risk based Annual Internal Audit Plan in accordance with the UK Public Sector Internal Audit Standards (UKPSIAS). This was received by the Audit Committee at its meeting on 5 May 2015. The Plan is regularly monitored and reviewed during the year so that it provides sufficient coverage of the key risks facing the Council.
- 2.2 At the end of the financial year, Internal Audit will produce an Annual Internal Audit Report, which will provide our overall opinion on the adequacy of the Council's control environment and compliance with it during the year.
- 2.3 This report summarises the main activities of the Internal Audit function for the first seven months of 2015/16. The report is presented to the Audit Committee to enable it to fulfil its responsibility for overseeing the work of Internal Audit.

3. Legislation Surrounding Internal Audit.

- 3.1 The provision of Internal Audit is a statutory requirement for all local authorities that for the period under consideration is set out in the Accounts and Audit (England) Regulations 2015. These state:

“each principal authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

- 3.2 Internal Audit also has an important role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are that:

“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

3.3 In order to deliver its functions as determined by statute and professional standards, Internal Audit has unrestricted coverage and access to all employees, records and assets of the Council. Additionally, it has unrestricted access to, and the freedom to report to, the Commissioner Managing Director, the other Commissioners appointed by the Government, the Head of Paid Service, the Responsible Financial Officer, the Monitoring Officer and the Audit Committee. These requirements are set out in the Internal Audit Charter, which has recently been reviewed in line with the UKPSIAS and was received by the Audit Committee at its meeting on 30th September 2015.

4. Audit Planning Process.

4.1 The 2015/16 Audit Plan was produced taking account of the following:

- Analysis of the Council's risk registers.
- Examination of revenue and capital budgets.
- Cumulative audit knowledge and experience of previous work undertaken.
- Review of both Corporate and Service Plan objectives and priorities.
- Discussions with Strategic Directors and Assistant Directors.
- Knowledge of existing management and control environments.
- Professional judgement on the risk of fraud or error.
- Examination of the Corporate Improvement Plan and the Children's Services Improvement Plan.
- Review of external inspection reports, including the Independent Enquiry into Child Sexual Exploitation by Professor Jay and the Governance Inspection by Louise Casey CB.

4.2 The 2015/16 Audit Plan was approved by Audit Committee on 5th May 2015.

5. Audit Work Undertaken During the Period.

5.1 Internal Audit Opinion.

Internal Audit provides an 'opinion' on the control environment for all systems, services or functions which are subject to audit review. These will be taken into account when forming our overall annual opinion on the Council's control environment. An 'inadequate' opinion is given in any area under examination where one or more concerns of a 'fundamental' nature are identified in the area.

5.2. Summary of Findings from Audit Reviews.

Summary conclusions on all significant audit work concluded during the seven months ending 31st October 2015 are set out in **Appendix A**.

5.3 Audits with Inadequate Control Environment.

Our work concluded that the control environment was inadequate in eight areas, detailed below.

Directorate / Audit Area	Report to Mgmt.	Summary of Significant Issues
CYPS Fostering and Adoption: Extensions and Adaptations	24/09/15	The Council did not put in place legal agreements to protect a significant investment in extensions and adaptations to the homes of foster carers over a period of three years from 2011/12.
CYPS Clifton Community School	22/07/15	Weak budget management by the previous management at the school had resulted in the accumulation of a large and growing cumulative budget deficit position. Intervention by the Council has resulted in the production of a deficit reduction plan that aims to eliminate this deficit by 2018/19.
EDS Taxi Licensing Administration	26/06/15	This audit identified a number of serious issues with regard to the completion of processes leading to the issuing of operator, driver and vehicle licenses.
EDS Integrated Housing Management System	05/06/15	We have identified significant problems with the implementation of the new housing management system, including with specific aspects of its functionality and security, resulting in significant delays to implementation. Council officers worked with the developer to ensure these were resolved prior to go-live implementation.
PUBLIC HEALTH Public Health Contract Compliance: GP and Pharmacy	22/10/15	The audit identified weaknesses in current arrangements around the monitoring of compliance with safeguarding policies and standards by GPs and Pharmacies and the verification of qualifications and training of GPs and pharmacy professionals.
CORPORATE / COUNCIL WIDE Business Continuity Management	07/09/15	We reviewed the extent to which Directorates were up to date with their BCM arrangements. We found that although many had commenced the process and had varying levels of business continuity plans in place; these had not been formally recorded on the corporate BCM system. Since the issue of the draft audit report, services have been instructed to ensure that business impact analysis documents and business continuity plans are properly recorded on the central system.

Directorate / Audit Area	Report to Mgmt.	Summary of Significant Issues
INVESTIGATION: CYPs Abbey School	12/05/15	The audit confirmed the results of an external review into this issue (the Bell Report) and highlighted a number of weaknesses in the governance of the arrangement between Winterhill School and Abbey School, including: <ul style="list-style-type: none"> • No clear basis for arriving at the cost of the support package • Lack of clear lines of accountability for monitoring delivery of the support package A recommendation to strengthen governance of any future arrangements has been agreed with and implemented by management.
INVESTIGATION: EDS Voluntary Organisation Grant Claim	10/06/15	The organisation could not provide evidence that confirmed delegates' attendance at events for which the claim had been made. We were, therefore, unable to approve the claim.

5.4 Responsive Audit Work and Investigations.

In addition to our assurance work, we also investigate allegations of fraud, corruption or other irregularity and respond to requests for assistance from the various services and functions in the Council. A summary of the more significant pieces of work that have been completed in the period is provided at Appendix B.

6. Management Response to Audit Reports.

- 6.1 Following the completion of audit work, draft reports are sent to the responsible Service Manager to obtain their comments as to the factual accuracy of the report and their agreement to the implementation of recommendations. This results in the production of an Action Plan, containing details of implementation dates and the officers responsible for delivery of each agreed action. Before the issue of the final report, agreement is also obtained from the relevant Assistant Director. Final reports, incorporating an agreed Action Plan, are then formally issued to the appropriate Strategic Director, Assistant Director and Service Manager.
- 6.2 Internal Audit subsequently seeks assurance that agreed actions emanating from audit work have actually been implemented. As a minimum this involves contacting the manager responsible two months after the issue of the final audit report to seek written confirmation that agreed actions have been implemented or where they have not that appropriate progress is being made. Where fundamental weaknesses in internal control arrangements have been identified, a more detailed follow up piece of work is undertaken.

- 6.3 A summary of audit recommendations made following each piece of audit work is provided in Appendix C. This shows: the number of recommendations made, the number of recommendations agreed, and the status of implementation of each agreed recommendation.
- 6.4 It is pleasing to note that an Action Plan has been agreed in respect of all final reports issued. It is also pleasing to note that the vast majority of services and functions are making good progress with the implementation of audit recommendations. In the small number of cases where this is not happening, we are following our standard protocols of follow up with the appropriate Assistant Director and Strategic Director.

7. Work for Outside Bodies.

- 7.1 During the period Internal Audit provided audit services on a fee earning basis to the following academies:

- Wingfield Secondary
- Anston Greenlands Primary
- Dalton Listerdale Primary
- Maltby St. Mary's Primary
- Herringthorpe St. Mary's Primary
- Rawmarsh Sandhill Primary
- Rawmarsh Monkwood Primary
- Herringthorpe Junior

Since academies are separate legal entities to the Council, this work does not have any impact on our overall opinion of the Council's control environment.

8. Internal Audit Performance Indicators.

- 8.1 Our performance against a number of indicators is summarised below:

Performance Indicator	2015/16 Target	Apr to Oct 2015
Draft reports issued within 15 days of field work being completed.	95%	85%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%
Chargeable Time / Total Time.	63%	67%
Audits completed within planned time.	95%	69%
Percentage of Audit Plan completed.	85% (full year)	40% (7 months)
Cost per Chargeable Day.	£275	£295
Client Satisfaction Survey.	100%	75%

- 8.2 The main area of concern in the performance indicators above relates to the 'Percentage of Audit Plan completed'. As at 31st October 2015, taking account of final reports issued and a prudent assessment of work in progress, Internal Audit had completed 40% of the 2015/16 Audit Plan. Extrapolation of this to the

year-end would indicate that 72% will be completed by the end of 2015/16. This is behind our target of 85%. There are a number of reasons for this:

- A significant focus of Internal Audit activity during the early part of the period was completion of 2014/15 audit work which overlaps the end of the financial year.
- There have been a number of responsive audits carried forward from 2014/15 that have taken longer to complete than anticipated due to the complex nature of the issues involved. For example, Internal Audit has undertaken an investigation into the alleged removal of files and impairment of computer records belonging to the former researcher at the Risky Business office in the International Centre, Rotherham. Also, Internal Audit has undertaken an investigation into concerns raised by Louise Casey CB as to why minutes of meetings relating to the Key Players Group had not been provided to Professor Jay.
- A significant proportion of resource during April was devoted to the production of the 2015/16 Internal Audit Plan, adopting an updated approach following comments in the Casey Report about the approach to internal audit.
- A member of the team suffered from an extended period of sickness absence. A member of the team has resigned, having secured another role in public sector internal audit.

- 8.3 We are currently finalising a plan to use interim resources to ensure that at least 90% of the Audit Plan can be delivered by the year-end. Details of this will be brought to the January 2016 Audit Committee.
- 8.4 A further key area of concern is the indicator relating to “Audits completed within planned time” which is also significantly behind target. This is partially due to a number of complex and sensitive pieces of work taking longer than was anticipated. However, it also highlights an urgent need to improve the performance of the Internal Audit team in delivering audit work within budget and elapsed time targets.
- 8.5 Clear instruction has been given by the Strategic Director, Finance and Corporate Services, that all audits must be completed within the days allocated other than in exceptional cases where issues are discovered during an audit that require further investigation. In these cases, any additional budget days must be authorised by the Chief Internal Auditor and Assistant Director, Audit, ICT and Procurement. This measure, alongside a general strengthening of performance management and resource prioritisation, is already having a positive impact. A report on progress will be brought to the January 2016 Audit Committee.

Summary of Issues Arising From Audit Work Undertaken

Audit Area	Assurance Objective	Final Report to Mgmt.	Overall Audit Opinion	Summary of Significant Issues
CHILDREN AND YOUNG PEOPLE SERVICES				
Adoption Allowances	To obtain assurance that the Council has proper processes in place for the payment of Adoption, Residence Order, Child Arrangement and Special Guardianship Allowances.	20/05/15	Adequate	Children and Young People's Services discovered a significant Adoption Allowance overpayment (totalling £16,078) had been made over a period of 15 months between October 2013 and January 2015. This arose due to a manual error made in transferring payment details onto the SWIFT system. Investigations by management and Internal Audit confirmed this to be an isolated error. A series of audit recommendations were agreed which will reduce the likelihood of errors in future. Recovery of the overpayment is being pursued by the Council.
Fostering and Adoption: Extensions and Adaptations	To investigate why the Council had not put in place legal agreements to protect a significant investment (£900k over three years from 2011/12) in extensions to the homes of foster carers and identify the associated weaknesses in system controls.	24/09/15	Inadequate	<p>We carried out an investigation to determine why the Council did not put in place legal agreements to protect a significant investment (£900k over three years from 2011/12) in extensions to the homes of foster carers and identify the associated weaknesses in system controls.</p> <p>We concluded that:</p> <ul style="list-style-type: none"> • The former Director of Safeguarding, Children & Families had not ensured that the proposed system processes were put in place, appropriate officers were made aware of their roles and responsibilities and all processes were working as intended. • The fact that legal agreements had not been in place was not identified and rectified by subsequent management during the 3-year term of the scheme. <p>No financial loss was incurred by the Council from any of the cases we reviewed and the expected additional care capacity was achieved. Audit recommendations have been agreed with Legal Services and EDS.</p>

Audit Area	Assurance Objective	Final Report to Mgmt.	Overall Audit Opinion	Summary of Significant Issues
Children's Homes: Liberty House	To assess the adequacy of financial administration arrangements in place at the home, including arrangements for administering children's personal monies.	15/09/15	Adequate	Arrangements were found to be adequate.
Children's Social Care Emergency Payments	To assess the robustness of financial administration arrangements in Riverside House with regard to Emergency Payments.	13/04/15	Adequate	Overall the arrangements were assessed as adequate, although one significant weakness was identified; this was that a number of people had access to the safe, which would make it difficult to identify any individual responsible for any shortfalls in the money held. Actions have been agreed with management to strengthen this and other, minor, weaknesses found.
Clifton Community School	To assess the financial management arrangements at Clifton Community School.	22/07/15	Inadequate	The audit found that the previous management of the school set in year deficit budgets when the school had a cumulative surplus budget position, without planning for the fact that once the surplus had been exhausted a large deficit would accumulate. Expenditure on staffing budgets and other areas had not been reduced to reflect falling pupil numbers. The previous Governing Body had been weak in its oversight of the school's budget. This had resulted in a cumulative budget deficit position of £932k by the start of 2015/16, with a projected deficit of £3.2million by 2018/19. Intervention by the Strategic Director, CYPS, with support from Financial Services has resulted in the production of a deficit reduction plan that aims to eliminate the deficit by 2018/19.
Children's Centres: Training to New	Children's Centres have been subject to major service reconfiguration, with the	N/A	N/A	Three training sessions delivered. No significant issues were noted.

Audit Area	Assurance Objective	Final Report to Mgmt.	Overall Audit Opinion	Summary of Significant Issues
Heads	appointment of a number of new Heads of Centres. Internal Audit was requested to provide training to the new Heads on Financial Regulations, Contract Standing Orders etc.			
Early Education Provision	To assess the adequacy of the arrangements in place to manage key risks associated with Early Education provision.	26/08/15	Adequate	The audit identified that a Scheme of Delegation needed to be put in place to ensure proper authorisation by the Authority of contracts with early education providers.
ADULT SOCIAL CARE				
Better Care Fund	To assess the adequacy of the arrangements for the administration of the Better Care Fund, including budgetary control and risk management processes.	12/05/15	Adequate	Arrangements were found to be adequate.
Adult Residential and Day Services: Oaks Day Centre	To assess the adequacy of financial administration arrangements in place at the centre, including arrangements for administering service user monies.	12/08/15	Adequate	The audit identified a need to strengthen controls around the use of debit / credit cards by staff at the centre.

Audit Area	Assurance Objective	Final Report to Mgmt.	Overall Audit Opinion	Summary of Significant Issues
ENVIRONMENT AND DEVELOPMENT SERVICES				
Taxi Licensing Administration	To ensure that necessary checks are performed before issuing licences for drivers, vehicles and operators.	26/06/15	Inadequate	This audit identified a number of serious issues with regard to the completion of processes leading to the issuing of operator, driver and vehicle licenses. It also revealed weaknesses in communication and information sharing between the administration and enforcement teams, which meant the enforcement did not always have up to date details with which to carry out its responsibilities. We made detailed recommendations, which have been or are being actioned by management, to strengthen arrangements. We will carry out a follow-up audit of this area to confirm that recommendations have been implemented in full.
Integrated Housing Management System	To assess the Council's arrangements for the management of the project risks arising from the implementation of the new Integrated Housing Management System.	05/06/15	Inadequate	We identified significant problems with the implementation of this system, including with specific aspects of its functionality and security. These resulted in significant delays to implementation. We also found weaknesses in the contract for the procurement of the system. Council officers worked with Civica to resolve the outstanding issues prior to go-live during week commencing 28 th September 2015.
Fuel System	To review the adequacy of the arrangements in place for the supply of fuel to Council vehicles from Hellaby, Barbers Avenue and Oaks Lane depots. To review the adequacy of the arrangements in place for the issuing and use of fuel cards.	23/04/15	Adequate	Arrangements were found to be adequate.

Audit Area	Assurance Objective	Final Report to Mgmt.	Overall Audit Opinion	Summary of Significant Issues
Registrars	To assess progress made with the implementation of the recommendations made by the General Register Office, following its inspection of the Council's service in January 2015.	20/08/15	Adequate	Arrangements were found to be adequate.
Barnsley, Doncaster and Rotherham (BDR) Waste PFI	To complete the Audit Commission Small Bodies Internal Audit Return as required by the BDR external auditor, BDO.	16/07/15	Adequate	No significant issues were noted.
Integrated Housing Management System Data Migration	To assess the adequacy of the arrangements for the transfer of data from the OHMS system to IHMS.	25/09/15	Adequate	Arrangements were found to be adequate.
FINANCE AND CORPORATE SERVICES				
Adult Social Care Financial Assessments	To ensure that the Council has proper arrangements for carrying out financial assessments.	12/10/15	Adequate	Arrangements were found to be adequate.
Adult Social care Payments Process	To ensure that the Council has proper arrangements for making payments to providers of Adult Social Care.	12/10/15	Adequate	Arrangements were found to be adequate.
Creditors	To ensure that the Council has proper arrangements in place for the payment of	03/09/15	Adequate	Arrangements were found to be adequate.

Audit Area	Assurance Objective	Final Report to Mgmt.	Overall Audit Opinion	Summary of Significant Issues
	creditors			
Housing Benefits and Council Tax Reduction Scheme	To ensure that the Council has proper arrangements in place for the administration of Housing Benefits and Council Tax Support.	22/06/15	Adequate	Arrangements were found to be adequate.
Council Tax	To ensure that the Council has proper arrangements in place for the collection of Council Tax.	10/09/15	Adequate	Arrangements were found to be adequate.
PUBLIC HEALTH				
Public Health Contract Compliance: GP and Pharmacy	To assess the adequacy of the Council's contract compliances arrangements related to the services commissioned by Public Health from GPs and Pharmacies.	22/10/15	Inadequate	A number of detailed recommendations to strengthen arrangements were made relating to issues identified including: <ul style="list-style-type: none"> • safeguarding policy and standards, and monitoring of compliance by GPs and Pharmacies; • verification and monitoring of qualifications, training and accreditation of GP and pharmacy professionals.
Public Health Procurement Arrangements	To assess compliance with procurement standards, including EU procurement rules, RMBC Financial Regulations and Contract Standing Orders in relation to the recent procurement of the Weight Management Services contract.	09/11/15	Adequate	Arrangements were found to be adequate.

Audit Area	Assurance Objective	Final Report to Mgmt.	Overall Audit Opinion	Summary of Significant Issues
CORPORATE / COUNCIL WIDE				
Business Continuity	To assess the adequacy of the Council's business continuity management (BCM) arrangements.	07/09/15	Inadequate	We reviewed the extent to which Directorates were up to date with their BCM arrangements. We found that although many had commenced the process and had varying levels of business continuity plans in place, these had not been formally recorded on the corporate BCM system. Since the issue of the draft audit report, services have been instructed to ensure that business impact analysis documents and business continuity plans are properly recorded on the central system.
ANTI FRAUD AND CORRUPTION				
Annual Fraud Report	To produce the Annual Fraud Report.	23/09/15	N/A	Presented to September 2015 Audit Committee.
Anti-Fraud and Corruption Policy and Strategy	To produce an Anti-Fraud and Corruption Policy and Strategy that is compliant with professional standards and takes account of the Corporate Improvement Plan.	23/09/15	N/A	Presented to September 2015 Audit Committee.
GRANTS				
Troubled Families Grant	Audit in accordance with grant funding body requirements.	27/05/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Camino Grant 1	Audit in accordance with grant funding body requirements.	30/04/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Camino Grant 2	Audit in accordance with grant funding body	27/07/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.

Audit Area	Assurance Objective	Final Report to Mgmt.	Overall Audit Opinion	Summary of Significant Issues
	requirements.			
Disabled Facilities Adaptations Grant	Audit in accordance with grant funding body requirements.	15/07/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Sport England Grant 1	Audit in accordance with grant funding body requirements.	03/09/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Sport England Grant 2	Audit in accordance with grant funding body requirements.	03/09/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Pot Hole Grant	Audit in accordance with grant funding body requirements.	28/09/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Additional Highway Maintenance Grant	Audit in accordance with grant funding body requirements.	28/09/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.

Responsive Audit Work / Investigations

Audit Area	Assurance Objective	Status	Overall Audit Opinion	Summary of Significant Issues
Abbey School	To consider the adequacy of arrangements in place for the brokering and monitoring of the partnering arrangement between Abbey School and Winterhill School.	12/05/15	Inadequate	<p>The audit confirmed the results of an external review into this issue (the Bell Report) and highlighted a number of weaknesses in the governance of the arrangement between Winterhill School and Abbey School, including:</p> <ul style="list-style-type: none"> • No clear basis for arriving at the cost of the support package • Lack of clear lines of accountability for monitoring delivery of the support package <p>An Interim Executive Board has now been put in place to oversee the extension of the arrangement to 31st August 2015. The Board is working in partnership with the Council. Early indications are that this arrangement will be far more satisfactory.</p> <p>Audit recommendations were agreed with management which should ensure more robust governance around any future arrangements that are brokered between schools.</p>
Voluntary Organisation Grant Claim	To audit the documentation supplied by a voluntary organisation in support of their grant claim.	10/06/15	Inadequate	The organisation could not provide evidence that confirmed delegates' attendance at events for which the claim had been made. We were, therefore, unable to approve the claim.

Analysis Of Audit Recommendations Made, Agreed And Implemented

The table below shows the status of recommendations that have arisen from audit work completed during the period. Recommendations are categorised as follows:

- Three Star *** Fundamental** Action considered necessary to avoid exposure to a fundamental risk to the Council
Two Star ** Significant Action considered necessary to avoid exposure to a significant risk
One Star * Merits Attention Action desirable to enhance control or value for money

Audit Area	Overall Audit Opinion	Recommendations made					Status of agreed actions			
		***	**	*	Total recs made	Total recs agreed	Not Yet Due	Implemented	Ongoing	Outstanding
CYPS										
Adoption Allowances	Adequate	0	4	4	8	8	0	4	1	3
Fostering and Adoption: Extensions and Adaptations	Inadequate	1	3	4	8	8	8	0	0	0
Children's Homes: Liberty House	Adequate	0	3	13	16	16	0	15	0	1
Children's Social Care Emergency Payments	Adequate	0	0	5	5	5	0	5	0	0
Clifton Community School	Inadequate	3	6	5	14	14	0	14	0	0
Children's Centres: Training to new Heads	Not applicable	0	0	0	0	0	0	0	0	0
Early Education Provision	Adequate	0	1	14	15	14	4	9	1	0

Audit Area	Overall Audit Opinion	Recommendations made					Status of agreed actions			
		***	**	*	Total recs made	Total recs agreed	Not Yet Due	Implemented	Ongoing	Outstanding
ADULT SOCIAL CARE										
Better Care Fund	Adequate	0	0	0	0	0	0	0	0	0
Adult Residential and Day Services: Oaks Day Centre	Adequate	0	2	5	7	7	0	7	0	0
EDS										
Taxi Licensing Administration	Inadequate	5	8	1	14	14	4	10	0	0
Integrated Housing Management System	Inadequate	4	2	0	6	6	0	6	0	0
Fuel System	Adequate	0	2	7	9	9	0	9	0	0
Registrars	Adequate	0	1	0	1	1	0	1	0	0
BDaR Waste Internal Audit return	Adequate	0	0	0	0	0	0	0	0	0
Integrated Housing Management System Data Migration	Adequate	0	0	0	0	0	0	0	0	0
FINANCE AND CORPORATE SERVICES										
Adult Social Care Financial Assessments	Adequate	0	0	4	4	4	4	0	0	0
Adult Social Care Payments Process	Adequate	0	6	1	7	7	7	0	0	0
Creditors	Adequate	0	0	3	3	3	3	0	0	0
Housing Benefits and	Adequate	0	0	4	4	4	0	4	0	0

Audit Area	Overall Audit Opinion	Recommendations made					Status of agreed actions			
		***	**	*	Total recs made	Total recs agreed	Not Yet Due	Implemented	Ongoing	Outstanding
Council Tax Reduction										
Council Tax	Adequate	0	0	5	5	3	3	0	0	0
PUBLIC HEALTH										
Public Health Contract Compliance: GPs and Pharmacies	Inadequate	6	4	5	15	15	15	0	0	0
Public Health Procurement Arrangements	Adequate	0	0	0	0	0	0	0	0	0
CORPORATE / COUNCIL WIDE										
Business Continuity Management	Inadequate	2	2	0	4	4	4	0	0	0
ANTI FRAUD AND CORRUPTION										
Annual Fraud Report	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Anti-Fraud and Corruption Policy and Strategy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
GRANTS										
Troubled Families Grant	Adequate	0	0	0	0	0	0	0	0	0
Camino Grant 1	Adequate	0	0	0	0	0	0	0	0	0
Camino Grant 2	Adequate	0	0	0	0	0	0	0	0	0
Disabled Facilities Adaptations Grant	Adequate	0	0	0	0	0	0	0	0	0
Sport England Grant 1	Adequate	0	0	0	0	0	0	0	0	0
Sport England Grant 2	Adequate	0	0	0	0	0	0	0	0	0

<i>Audit Area</i>	<i>Overall Audit Opinion</i>	<i>Recommendations made</i>					<i>Status of agreed actions</i>			
		<i>***</i>	<i>**</i>	<i>*</i>	<i>Total recs made</i>	<i>Total recs agreed</i>	<i>Not Yet Due</i>	<i>Implemented</i>	<i>Ongoing</i>	<i>Outstanding</i>
Pot Hole Grant	Adequate	0	0	0	0	0	0	0	0	0
Additional Highway Maintenance Grant	Adequate	0	0	0	0	0	0	0	0	0
RESPONSIVE AUDIT WORK / INVESTIGATIONS										
Abbey School	Adequate	1	0	0	1	1	0	1	0	0
Voluntary Organisation Grant Claim	Adequate	0	1	0	1	1	0	1	0	0
TOTALS		22	45	80	147	144	52	86	2	4

Summary Sheet

Council Report:

Audit Committee – 24th November 2015

Title:

External Audit and Inspection Recommendations

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report:

Stuart Booth, Strategic Director of Finance and Corporate Services

Report Author(s):

Tracy Blakemore - Quality and Projects Officer, CYPS

Sue Wilson – Head of Service, Performance & Planning, CYPS

Ward(s) Affected:

All

Executive Summary:

In line with the audit committee prospectus “A fresh start”, the purpose of this report is to provide details of recent and current external audits and inspections, including the details of arrangements that are in place regarding the accountability and governance for implementing recommendations arising from these. The report will also summarise the progress against recommendations from across all key external audits and inspections.

Recommendations:

That the Audit Committee notes the governance arrangements that are currently in place for monitoring and managing the recommendations from external audits and inspections.

That the Audit Committee continues to receive regular reports in relation to external audit and inspections and progress in implementing recommendations.

List of Appendices Included:

Appendix A – Summary of recommendations

Background Papers

Ofsted report published November 2014
Corporate Governance Inspection published
Fresh Start Improvement Plan
CYPS Improvement Plan

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Council Approval Required

No

Exempt from the Press and Public

No

Title – External Audit and Inspection Recommendations

1. Recommendations

- 1.1 That the Audit Committee notes the governance arrangements that are currently in place for monitoring and managing the recommendations from external audits and inspections.
- 1.2 That the Audit Committee continues to receive regular reports in relation to external audit and inspections and progress in implementing recommendations.

2. Background

2.1 In line with the audit committee prospectus “A fresh start”, the purpose of this report is to provide details of recent and current external audits and inspections, including the details of arrangements that are in place regarding the accountability and governance for implementing recommendations arising from external audits and inspections. The report will also summarise the progress against recommendations from across all key external audits and inspections. The report covers the 2 key improvement plans – Fresh Start and the Children and Young People’s Plan plus recommendations from inspections from across the rest of the Council.

3. Key Issues

3.1 Fresh Start Improvement Plan

3.1.1 The “Fresh Start” Improvement Plan is Rotherham Council’s strategic, organisation-wide response to the corporate, organisation-wide aspects of the external Corporate Governance Inspection (CGI), published February 2015 and the Jay and Ofsted reports published in 2014. Section 5 of the ‘Fresh Start’ Improvement Plan outlines the association between it, and its sister document the Children and Young People’s Improvement Plan, developed in response to the recommendations from the Ofsted inspection of children’s services.

3.1.2 The RMBC Council meeting on 22nd May 2015 approved the Fresh Start Improvement Plan, with full cross-party support, prior to the Plan’s formal submission to the Secretaries of State for Communities and Local Government (DCLG) and Education (DfE) on 26th May 2015. The version of the Plan as submitted to Government is publicly available via the Council [website](#) and while the Plan is not intended as a public-facing document, a short, executive summary version has been prepared to support wider knowledge and understanding on the Plan’s main aims amongst council’s staff, elected members, partners and the public.

3.1.3 The Plan contains a suite of actions and milestones set out in a series of tables in sections 6.7 and 6.8. These were informed by the Government appointed

Commissioner's assessment of the Council's key improvement requirements in order to achieve a "fresh start" (a key phrase used at the time of Louise Casey's CGI report). It took into account discussions with leading elected members, senior managers and a staff corporate working group. It also drew upon elements of initial work carried out by a corporate improvement board that the Council had established with the Local Government Association (LGA) following the publication of the Professor Jay report in August 2014.

3.1.4 The Plan is divided into two phases:

An initial "transition" phase, to May 2016, focuses on ensuring the Council has the basic building blocks in place of an effective council, namely:

- Inspirational political leadership
- Robust governance, decision-making and performance management
- A culture of excellence and outstanding implementation
- Strong, high impact partnerships

The second phase of the plan from May 2016, focuses on embedding strong leadership and a new culture and follows on from the appointment of key, permanent senior staff and the 'all out elections' planned for May 2016. This is yet to be defined in detail, with most actions front loaded and focused on the key building blocks. Greater clarity over phase two will therefore emerge as phase one is implemented.

3.1.5 In terms of the implementation of the Plan and its governance arrangements, this is overseen chiefly by a "Joint Board" of Commissioners and leading Elected Members (Labour and Opposition), supported by an officer Corporate Improvement Plan Group and assigned coordinators, linked to the Strategic Leadership Team (SLT).

3.1.6 The Joint Board meets monthly, to assess progress being made against each improvement action within the Plan. The first formal review of the Council's improvement progress to Government, submitted on 26th August 2015¹, featured a summary progress report based on the Joint Board's governance and performance management arrangements. Work will continue in this way, though it is expected that during early 2016, the Joint Board will wish to review how it operates as it approaches the second year of activity.

3.1.7 It is also worth noting that Commissioners have established a regular, quarterly programme of Public Meetings, where they meet with Elected Members in a forum where they can be questioned in a public setting on their progress, including with regard to the implementation of the "Fresh Start" Improvement Plan. Details of the Commissioners' Public Meeting are available on the Council's website (see <http://moderngov.rotherham.gov.uk/mgCommitteeDetails.aspx?ID=1015>).

¹ Available on the Council's website at www.rotherham.gov.uk/download/downloads/id/2645/commissioners_six_month_progress_review_-_august_2015.pdf

3.2 Adult Social Care

3.2.1 The CQC continue to undertake their programmed inspections of RMBC Social Care registered providers. Below are the updates since the last report:

- **Netherfield Court (intermediate care provider).** The 2015/16 unannounced visit of this service took place on 7th October 2015. The inspection followed the new CQC inspection format and was conducted over two days. The written report is awaited but verbal feedback given to the manager was very positive.
- **Treefields Close (Learning Disability Respite Service)** was awarded an overall rating of Good following an unannounced inspection on 14th & 15th July 2015. There is one recommendation outstanding in relation to “Is the service well-led”. It was found that the service was well led, however, 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 has commenced and sign off by CQC is expected by December 2015.
- **Quarry Hill Road (Learning Disability Respite Service).** This service was inspected by the CQC on the 11th and 20th August 2015 and was awarded an overall rating of Good with one area ‘is the service caring’ rated as outstanding. The CQC made no action or enforcement action requirements of the service. The full report will be published by CQC on their website shortly.

3.2.2 Overall Adult Services have a satisfactory compliance record with standards subject to inspection. Work has commenced to review current inspection governance arrangements including the stronger practices now implemented in Children & Young People’s Services to further strengthen its arrangements for preparing for inspections and responding to their outcomes.

3.3 Children and Young People’s Improvement Plan

3.3.1 CYPS Improvement Plan Review

- The Improvement Plan has recently undergone a substantial review. Previously the Plan focused on delivering the actions and outcomes in response to the 26 recommendations made by Ofsted in their inspection report published in November 2014. These initial actions focused on delivering the immediate remedial work required.
- The 26 recommendations from the OFSTED inspection will remain in place and “open” in the refreshed plan until the secretary of state from the Department for Education has made a decision for Rotherham to come out of intervention and is satisfied that all the requirements have been met.

- As well as being aligned to the original recommendations the Improvement Plan has been reshaped to align to the journey of the child, align 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.
- The Plan includes documented evidence and progress against outcomes and provides stronger accountability through Assistant Directors as 'owners'. The plan consists of a number of actions describing the work required as part of the improvement journey. Actions are progressed and monitored by a 'RAG Status' against each. Completed actions are signed off by the Board.
- The focus of the improvement plan is to put in place a sustainable approach enabling CYPS to meet aspirational objectives and provide a continuous improvement cycle to enable movement to become a child centred borough with outstanding services.

3.3.2 CYPS Improvement Plan Governance

- As previously reported to the Audit Committee on the 22nd July 2015, the governance of the CYPS Plan is through Children's Improvement Board which meets monthly. It is chaired by the Children's Commissioner and attended by the Director and Assistant Directors of Children's Services, Chair of RSCB and key partners including health, police and schools.
- A key responsibility of the Children's Improvement Board is to oversee progress through monitoring, challenging and supporting the actions of the Children and Young People's Improvement Plan. The Board considers the areas of greatest risk first, and lays the foundations for effective and sustained improvement. This includes challenging whether sufficient progress is being made, i.e. the right amount of progress in the right direction at the right pace.

3.4 Rotherham Residential Children's Homes

3.4.1 Rotherham Metropolitan Borough Council had five mainstream children's homes until the recent closure of Woodview. Three of these were long-term homes for young people with emotional and behavioural difficulties. The remaining two are for young people with disabilities; one is a long term home and the other a short breaks provision. Current Ofsted ratings for the homes are provided below with an overview provided of the action to be taken to address those homes rated as 'Inadequate'.

- **Silverwood** - Good
- **Cherry Tree (disability)** - Requires Improvement
- **Liberty House (short breaks)** - Good
- **Woodview** –Inadequate closed until further notice.
Subsequent to three Ofsted Inspection Judgements between June and October 2015; the Service Director and Responsible Individual applied to Ofsted for voluntary closure of Woodview. The home had already been judged by Ofsted to be 'declining in effectiveness' when a number of complaints from young people, residential care staff and various other professionals were received during the early months of 2015; highlighting a

number of core concerns directly related to poor leadership and management at Woodview since around 2009 which had resulted in an entrenched negative culture within the home. Staff remain at their home and are not required to report for work, pending a formal investigation commissioned by the Strategic Director.

- **St Edmunds – Inadequate**

A detailed Action Plan was submitted to Ofsted following the Inspection which took place on 12 October 15. A further inspection will take place within six to eight weeks when, given robust management action taken, an improvement is anticipated.

3.5 Economic Development Services and Housing & Neighbourhood Services

3.5.1 The external peer health checks programme led by the LGA has commenced and the EDS directorate has received draft reports for the housing and verbal feedback on the transport; highways, waste and planning inspections to date. The final reports, once received, will be used to formally update future Audit Committee reports. These reports are anticipated to be available during November/December 2015.

3.5.2 The EDS directorate has also committed to review current inspection governance arrangements including the stronger practices now implemented in Children & Young People's Services to further strengthen its arrangements for preparing for inspections and responding to their outcomes.

3.6 Finance and Corporate Services

3.6.1 Each year the External Auditor issues a range of reports relating to the work to be undertaken and these are presented to Audit Committee:

- **External Audit Plan** which outlines the audit approach and identifies areas of audit focus and planned procedures.
- **Interim Audit Report** (if required), which details control and process issues and identifies improvements required prior to the issue of the draft financial statements and the year-end audit.
-
- Report to those charged with **Governance (ISA260 report)** which:
 - Details the resolution of key audit issues.
 - Communicates adjusted and unadjusted audit differences.
 - Highlights recommendations identified during the audit.
 - Comments on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (Value for Money).
- **Annual Audit Letter** which summarises the outcomes and key issues arising from the audit work specifically in relation to:
 - Audit of accounts.
 - Value for Money Conclusion.

- Any other matters the external auditor is required to communicate.

3.6.2 Any recommendations made by the External Auditor in relation to issues identified and the management responses to those recommendations are highlighted in the reports presented to Audit Committee. In carrying out the audit work each year the External Auditor examines progress in addressing previous recommendations made and comments on progress within future reports.

3.6.3 There were no recommendations made in relation to the audit of the 2013/14 financial year.

3.6.4 As reported elsewhere on the Committee's agenda three low priority recommendations have been raised within the Report to those charged with Governance (ISA260 report) in relation to the 2014/15 financial year. These have been discussed and agreed with the Auditor and measures have been put in place to address the issues raised. Any recommendations are addressed by Financial Services and signed off at the interim visit by KPMG and then completion reported in the final year-end report.

3.6.5 Each local authority's external auditor is required to certify that the annual claim for reimbursement by the Government of Housing Benefit (a means tested benefit administered by local authorities on behalf of the Department for Work and Pensions (DWP)) is fairly stated and to report any errors/adjustments to the DWP in a covering letter that accompanies the claim.

3.6.6 Whilst the DWP have no formal inspection process it does reserve the right to carry out an inspection if circumstances warrant it, i.e. if a Local Authority's performance causes concern.

3.6.7 KPMG, who carries out the audit on behalf of DWP, checks the financial validity of the subsidy claim and, depending upon their findings, can:

- Where, no errors are found during their audit, certify the claim as fairly stated (i.e. provide an unqualified opinion on the Council's return).
- Where minor errors are found, agree adjustments to the claim with the Council and make no reference to errors in their opinion to the DWP (without qualification).
- For more significant errors, either in process or figures, the external auditor is likely to qualify the opinion on the Council's return and explain the reasons for doing so to the DWP, who will then determine what action, if any, needs to be taken on any points raised by the auditor.

3.6.8 The audit of the Council's 2014/15 claim is underway at present. In previous audits the Council has received only very minor qualifications resulting in amendments being made to the final claim in accordance with the DWP arrangements.

4. Options considered and recommended proposal

- 4.1 Audit Committee consider the detail of the report including Appendix A which provides a high level summary of the current position of inspection recommendations.

5. Consultation

- 5.1 Not applicable to this report.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The timescales for each inspection recommendation differs and is included in Appendix A.

7. Financial and Procurement Implications

- 7.1 There are no financial implications.

8. Legal Implications

- 8.1 There are no legal implications.

9. Human Resources Implications

- 9.1 There are no Human Resources implications.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 The recommendations in relation to inspections in both Children and Young People's Services and Adult Social Care have direct implications on the quality of services provided to children, young people and vulnerable adults. Completing the recommendations will improve outcomes for these groups.

11. Equalities and Human Rights Implications

- 12.1 Equality Assessments are undertaken in relation to any new policies or strategies that are developed as a result of the work being undertaken to improve services.

12. Implications for Partners and Other Directorates

- 12.1 Partnership approaches are key to improving services, particularly in relation to Children and Young People's Services, the Improvements need to be of a multi-agency nature and owned cross the partnership. The CYPS Improvement Board is made up of senior officers from partner organisations.

13. Risks and Mitigation

- 13.1 There is a risk that actions are reported as completed without substance, it is important that arrangements are in place as part of the respective quality assurance regimes and monitored through performance management, evidencing not just completion of actions, but the associated outcomes. As governance arrangements are strengthened, these risks become mitigated.

14. Accountable Officer(s)

Ian Thomas – Interim Strategic Director Children and Young People’s Services

Graeme Betts – Interim Strategic Director of Adult Services and Housing.

Karl Battersby – Strategic Director Environment and Development Services.

Approvals Obtained from:-

Stuart Booth, Strategic Director of Finance and Corporate Services

Director of Legal Services: Not Applicable

Head of Procurement (if appropriate): Not Applicable

This report is published on the Council's website or can be found at:

<http://moderngov.rotherham.gov.uk/ieDocHome.aspx?Categories>

APPENDIX A

Summary of Recommendations from “Active” Inspection & Audit action plans

Inspection / Review (date)	External Assessor	Number of recommendations	Implemented at last report	Implemented since last report	Still outstanding	Overall Completion Date for Recommendations	STATUS
Corporate							
Corporate “Fresh Start” Improvement Plan	DCLG and DfE	132	18 (26 Aug '15)	15 (2 Nov '15)	99	1 st phase to May 2016 2 nd phase from May 2016 to May 2017	On track – next formal 6 month report to Secretaries on State due by 26 th February 2016
Adult Social Care							
Adult Social Care – Inspection of Treefields Close Learning Disability Respite Service July 2015	CQC	1	0	0	1	Dec 2015	Registration process commenced and sign off by CQC awaited.
Children and Young Peoples Services							
Inspection of services for children in need of help and protection, children looked after and care leavers and Review of the effectiveness of the Local Safeguarding Children Board	OFSTED	26	0	0	26	May 2016	Ongoing
Economic Development Services and Housing & Neighbourhood Services							
NIL	n/a	0	0	0	0	n/a	n/a
Finance and Corporate Services							
External Auditor’s Report on the Accounts 2014/15	KPMG	3	0	1	2	Mar 2016	On-going

Summary Sheet

Council Report Audit Committee

Title

Mid-Year Treasury Management and Prudential Indicators Monitoring Report – 2015/16

Is this a Key Decision and has it been included on the Forward Plan?

Yes, included on the Forward Plan for this meeting.

Strategic Director Approving Submission of the Report

Stuart Booth – Acting Strategic Director of Finance & Corporate Services

Report Author(s)

Derek Gaffney (Chief Accountant)
Finance & Corporate Services Directorate
01709 822005 derek.gaffney@rotherham.gov.uk

Ward(s) Affected

All

Executive Summary

1. Mid-Year Treasury Review

The regulatory framework of treasury management requires that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.

This report meets that requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).

It is a requirement that changes to the prudential indicators for 2015/16 are approved by Full Council.

The review as set out in Appendix A to the report is structured to highlight the key changes to the Council's capital activity (the PIs) and the actual and proposed treasury management activity (borrowing and investment).

A technical and complex report the key messages for Members are:

- a. Investments - the primary governing principle remains **security** over return and the criteria for selecting counterparties continues to reflect this.
- b. Borrowing - overall this will remain fairly constant over the period covered by this report and the Council will remain under-borrowed against the borrowing requirement due to the cost of carrying debt. New borrowing will generally only be taken up as debt matures.
- c. Governance - strategies and monitoring are undertaken by Audit Committee

2. Minimum Revenue Provision Policy Statement Review

It is a requirement that the Council's Minimum Revenue Provision Policy for each financial year is approved by Full Council.

Following further discussions with the Council's external auditor it is recommended that further clarification should be included within the wording of the current policy statement.

Recommendations

The Audit Committee is asked to:

1. **Note the contents of the report; and**
2. **Refer the report to Commissioner Manzie to consider recommending Council approve the changes to the 2015/16 prudential indicators and the update to the wording of the current Minimum Revenue Provision Policy Statement**

List of Appendices Included

Appendix A – Mid-Year Treasury Review

Appendix B – Update to the Minimum Revenue Provision Policy Statement

Background Papers

None

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

Yes

Exempt from the Press and Public

No

Mid-Year Treasury Management and Prudential Indicators Monitoring Report – 2015/16

1. Recommendations

The Audit Committee is asked to:

1. **Note the contents of the report; and**
2. **Refer the report to Commissioner Manzie to consider recommending Council approve the changes to the 2015/16 prudential indicators and the update to the wording of the current Minimum Revenue Provision Policy Statement**

2. Background

- 2.1 **Mid-Year Treasury Review** – Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.
- 2.2 This review as fully set out in Appendix A meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and PIs were previously reported to Audit Committee and Commissioners in February 2015 and approved by Council on 4 March 2015.
- 2.3 **Update to the Council's Minimum Revenue Provision Policy Statement** – Minimum Revenue Provision (MRP) arises because there is statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement - CFR), i.e. the borrowing taken out in order to finance capital expenditure.
- 2.4 Members will recall that the Council approved at the Council meeting on 9 July 2015 a change to the MRP policy for the annual MRP charges on pre 2007/08 debt applicable to the 2014/15 financial year and to be confirmed annually as required in respect of future years.
- 2.5 Following further discussions with the Council's external auditor it is recommended that further clarification should be included within the wording of the current policy statement.

3. Key Issues

- 3.1 **Mid-Year Treasury Review** – The review as set out at Appendix A keeps Members up to date and informs on performance against the plan.
- 3.2 The key messages for Members are:
 - a. Investments - the primary governing principle remains **security** over return and the criteria for selecting counterparties continues to reflect this.
 - b. Borrowing - overall this will remain fairly constant over the period covered by this review and the Council will remain under-borrowed against the borrowing requirement due to the cost of carrying debt. New borrowing will generally only be taken up as debt matures.
 - c. Governance - strategies and monitoring are undertaken by Audit Committee
- 3.3 **Update to the Council's Minimum Revenue Provision Policy Statement** – It is a requirement that the Council's Minimum Revenue Provision Policy Statement for each financial year is approved by Full Council.
- 3.4 Following further discussions with the Council's external auditor it is recommended that further clarification should be included within the wording of the current policy statement. Details of the proposal are included at Appendix B to this report.

4. Options considered and recommended proposal

- 4.1 **Mid-Year Treasury Review** – The review as set out at Appendix A indicates performance is in line with the plan and no proposals to vary the approach for the remainder of the year are proposed.
- 4.2 **Update to the Council's Minimum Revenue Provision Policy Statement** – The option and recommended approach is being put forward following discussions with the Council's external auditor, KPMG.

5. Consultation

- 5.1 Consultation with the Council's External Auditors KPMG has taken place with respect to the update to the wording of the Council's Minimum Revenue Provision Policy Statement.

6. Timetable and Accountability for Implementing this Decision

- 6.1 Approval of the changes to the Prudential Indicators and the proposed change to the Council's Minimum Revenue Provision Policy Statement to be made in line with the Council's calendar of meetings.

7. Financial and Procurement Implications

- 7.1 Treasury Management forms an integral part of the Council's overall financial arrangements.
- 7.2 The assumptions supporting the capital financing budget for 2015/16 and for future years covered by the Council's MTFS were reviewed in light of economic and financial conditions and the future years' capital programme.
- 7.3 The Treasury Management and Investment Strategy is not forecast to have any further revenue consequences other than those identified and planned for in both the Council's 2015/16 Revenue Budget and approved MTFS.

8. Legal Implications

- 8.1 It is a requirement that changes to the Council's prudential indicators and approved by Full Council
- 8.2 It is also a requirement that the Council's Minimum Revenue Provision Policy Statement for each financial year is approved by Full Council.

9. Human Resources Implications

- 9.1 There are no Human Resource implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11. Equalities and Human Rights Implications

- 11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

12.1 There are no implications arising from this report to Partners or other directorates.

13. Risks and Mitigation

13.1 Regular monitoring of treasury activity ensures that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

14. Accountable Officer(s)

Stuart Booth (Acting Strategic Director of Finance & Corporate Services)

Approvals Obtained from:-

Acting Strategic Director of Finance & Corporate Services:- Stuart Booth

Director of Legal Services:- Stuart Fletcher

Mid-Year Prudential Indicators and Treasury Management Monitoring**1. Introduction and Background**

- 1.1 Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.
- 1.2 This report meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and PIs were previously reported to Audit Committee and Commissioners in February 2015 and approved by Council on 4 March 2015.
- 1.3 The Council's revised capital expenditure plans (Section 2.2 of this Appendix) and the impact of these revised plans on its financing are set out in Section 2.3. The Council's capital spend plans provide a framework for the subsequent treasury management activity. Section 3 onwards sets out the impact of the revised plans on the Council's treasury management indicators.
- 1.4 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Communities & Local Government Investment Guidance. These state that Members receive and adequately scrutinise the treasury management service.
- 1.5 The underlying economic and financial environment remains 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 is that investment returns remain low.
- 1.6 The Acting Strategic Director of Finance & Corporate Services can report that the basis of the treasury management strategy, the investment strategy and the PIs are not materially changed from that set out in the approved Treasury Management Strategy (March 2015).

2. Key Prudential Indicators

- 2.1. This part of the report is structured to update:
 - The Council's capital expenditure plans;
 - How these plans are being financed;
 - The impact of the changes in the capital expenditure plans on the PIs and the underlying need to borrow; and
 - Compliance with the limits in place for borrowing activity.

2.2 Capital Expenditure (PI)

2.2.1 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The revised estimate reflects the latest position in the 2015/16 capital monitoring report presented to Commissioner Manzie on 7 October 2015.

Capital Expenditure by Service	2015/16 Original Estimate £m	2015/16 Revised Estimate £m
Children & Young People's Services	9.736	12.035
Environmental & Development Services	21.863	24.875
Neighbourhoods & Adult Services – Non-HRA	4.908	5.290
Resources	0.671	2.784
Total Non-HRA	37.178	44.984
Neighbourhoods & Adult Services – HRA	32.846	32.524
Total HRA	32.846	32.524
Total	70.024	77.508

2.3 Impact of Capital Expenditure Plans

2.3.1 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the expected financing arrangements of this capital expenditure.

Capital Expenditure	2015/16 Original Estimate £m	2015/16 Revised Estimate £m
Total spend	70.023	77.508
Financed by:		
Capital receipts	1.649	1.825
Capital grants, capital contributions & other sources of capital funding	48.559	54.554
Borrowing Need	19.816	21.129
Total Financing	70.024	77.508
Supported Borrowing	0.000	0.006
Unsupported Borrowing	19.816	21.123
Borrowing Need	19.816	21.129

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision (MRP)). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

2.3.2 The increase in borrowing need for 2015/16 reflects the re-profiling of capital expenditure & financing and new approvals since the original estimate was approved (£1.313m).

2.3.3 **Changes to the Capital Financing Requirement (PI), External Debt and the Operational Boundary (PI)**

The table below shows the CFR, which is the underlying external need to borrow for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary which was set at the beginning of the financial year at £620.923m.

2.3.4 **Prudential Indicators – Capital Financing Requirement & External Debt / the Operational Boundary**

In addition to showing the underlying need to borrow, the Council's CFR has since 2009/10, also included other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets. No borrowing is actually required against these schemes as a borrowing facility is already included in the contract. The estimate for 2015/16 does not require any revision as there is no change in the borrowing need from such arrangements.

2.3.5 The revised CFR estimate for 2015/16 is £808.882m and this figure represents an increase of £27.269m when compared to the 2014/15 year-end position of £781.613m. The increase is due to:

- The estimated borrowing need for the year (£21.129m) net of the Minimum Revenue Provision charge for the year (£5.765m)
- the additional borrowing amount contained within PFI and similar schemes due to the Waste PFI scheme (£13.517m) net of repayments on all schemes (£1.612m).

RMBC	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR – Non Housing	325.496		367.157
CFR – Housing	306.445		304.125
Total CFR excluding PFI, finance leases and similar arrangements	631.941		671.282
Net movement in CFR	10.020		15.364
Cumulative adjustment for PFI, finance leases and similar arrangements	137.602		137.600
Net movement in CFR	11.853		11.905
Total CFR including PFI, finance leases and similar arrangements	769.543		808.882
Net movement in overall CFR	21.873		27.269
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	481.656	477.742	482.871
Other long term liabilities*	139.267	138.406	139.267
Total Debt 31 March	620.923	616.148	622.138

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Former SYCC	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	96.121	86.709	96.121
Other long term liabilities	0	0	0
Total Debt 31 March	96.121	86.709	96.121

3. Limits to Borrowing Activity

- 3.1 The first key controls over the treasury activity is a PI to ensure that over the medium term, gross and net borrowing will only be for a capital purpose. Gross and net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent to do so.

RMBC	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
Gross Borrowing	481.656	477.742	482.871
Plus Other Long Term liabilities*	137.602	138.406	137.600
Total Gross Borrowing	619.258	616.148	620.471
CFR*	769.543	802.007	808.882
Total Gross Borrowing	619.258	616.148	620.471
Less Investments	25.000	18.900	25.000
Net Borrowing	594.258	597.248	595.471
CFR*	769.543	802.007	808.882

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

- 3.2 The Acting Strategic Director of Finance & Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this PI.
- 3.3 A further PI controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt (RMBC)	2015/16 Original Indicator £m	Current Position £m	2015/16 Revised Indicator £m
Borrowing	648.657	477.742	683.381
Other long term liabilities*	139.267	138.406	139.267
Total	787.924	616.148	822.648

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Authorised limit for external debt (Former SYCC)	2015/16 Original Indicator £m	Current Position £m	2015/16 Revised Indicator £m
Borrowing	96.121	86.709	96.121
Other long term liabilities	0.000	0.000	0.000
Total	96.121	86.709	96.121

4. Treasury Strategy 2015/16 – 2017/18

4.1 Debt Activity during 2015/16

4.1.1 The expected borrowing need is set out below:

RMBC	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
CFR	769.543	802.007	808.882
Less Other Long Term Liabilities*	137.602	138.406	137.600
Net Adjusted CFR (y/e position)	631.941	663.601	671.282
Borrowed at 30/09/15	457.780	477.742	477.742
Under borrowing at 30/09/15	171.161	185.859	193.540
Borrowed at 30/09/15	457.780		477.742
Estimated to 31/03/16	23.876		5.129
Total Borrowing	481.656		482.871
Under borrowing at 31/03/16	150.285		188.411

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

- 4.1.2 The Council is currently under-borrowed. The delay in borrowing reduces the cost of carrying the borrowed monies when yields on investments are low relative to borrowing rates. There is also an interest rate risk, as longer term borrowing rates may rise, but this position is being closely monitored and the overall position carefully managed.
- 4.1.3 During the six months to 30 September 2015 the Council has borrowed the following amounts from Barnsley, Doncaster, Rotherham and Sheffield Combined Authority:

Principal	Type	Term	Interest Rate
£10,000,000	Fixed rate	3 years	1.25%
£15,000,000	Fixed rate	6 years	2.20%
£5,000,000	Fixed rate	9 years	2.54%

- 4.1.4 During the six months to 30 September 2015, the Council has repaid the following amounts:

Lender	Principal	Type	Interest Rate
PWLB	£20,000,000	Fixed rate	9.625%
PWLB	£1,000,000	Fixed rate (EIP)	3.46%
PWLB	£65,000	Fixed rate (EIP)	3.79%
PWLB	£77,086	Fixed rate (Annuity)	Various

One Equal Instalment of Principal (EIP) loan for £20m is being repaid in equal half yearly instalments of £1m over its 10 year term. A second EIP loan for £1.3m is being repaid in equal half yearly instalments of £65,000 over its 10 year term. There are 5 Annuity loans on which variable amounts of principal are repaid each six months.

- 4.1.5 There has been no restructuring or early repayment of existing debt in the first six months of 2015/16.

5. Investment Strategy 2015/16 – 2017/18

5.1 Key Objectives

The primary objective of the Council's investment strategy is the safeguarding the repayment of the principal and interest of its investments on time – the investment return being a secondary objective. The current difficult economic and financial climate has heightened the Council's over-riding risk consideration with regard to "Counterparty Risk". As a result of these underlying market concerns officers continue to implement an operational investment strategy which further tightens the controls already in place in the approved investment strategy.

5.2 Current Investment Position

The Council held £18.900m of investments at 30 September 2015 (excluding Icelandic Banks), and the constituent parts of the investment position are:

Sector	Country	Up to 1 year £m	1 - 2 years £m	2 – 3 years £m
Banks	UK	0.750	0	0
DMO	UK	18.150	0	0
Local Authorities	UK	0	0	0
Total		18.900	0	0

One 'call' account with the top rated bank Handelsbanken is operated. This bank meets the Council's highest investment criteria.

This enables the Council to minimise the risk of having to leave unexpected receipts with the Council's current bankers, it allows immediate access to a small amount of funds to cover or part cover any short-term borrowing requirements and based on current rates there is a small benefit of approx. 0.2% over the rate achievable from the Debt Management Office.

5.3 Risk Benchmarking

A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are requirements to Member reporting and the following reports the current position against the benchmarks.

5.3.1 **Security** – The Council monitors its investments against historic levels of default by continually assessing these against the minimum criteria used in the investment strategy. The Council's approach to risk, the choice of counterparty criteria and length of investment ensures any risk of default is minimal when viewed against these historic default levels.

5.3.2 **Liquidity** – In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft – on a day-to-day basis the Council works to an agreed overdraft limit of £100,000 with the Council's bankers. Whilst a short-term increase could be negotiated less expensive short-term borrowing is accessed through the financial markets to remain within the agreed overdraft.
- Liquid short-term deposits of at least £3m available within a week's notice.

The Acting Strategic Director of Finance & Corporate Services can report that liquidity arrangements were adequate during the year to date.

5.3.3 **Yield** – a local measure for investment yield benchmark is internal returns above the 7 day LIBID rate

The Acting Strategic Director of Finance & Corporate Services can report that the return to date averages 0.26%, against a 7 day LIBID to the end of September 2015 of 0.36%. This is reflective of the Council's current approach to risk whereby security has been maximised by using the Debt Management Office and other Local Authorities as the principal investment counterparties.

It is important to recognise that based on the Council's average cash investments of £20m the difference in return at the benchmark when compared to the return achieved at the current rate would be £20k.

This increase in return has to be measured against the additional risk of placing cash elsewhere. However it is felt that the 'call' account with Handelsbanken could be used to a greater extent moving forward, but in a manner reflective of the need to maintain security of the Council's investments. This should ensure that at the year-end the outturn position will be closer to the benchmark figure.

6. Revisions to the Investment Strategy

- 6.1 The counterparty criteria are continually under regular review but in the light of the current market conditions no recommendations are being put to Members to revise the Investment Strategy.

7. Treasury Management Prudential Indicators

7.1 Actual and estimates of the ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

	2015/16 Original Indicator %	2015/16 Revised Indicator %
Non-HRA	8.24	6.30
HRA	16.07	15.94

- 7.2 The revised non HRA indicator reflects the impact of borrowing being at rates less than originally anticipated for 2015/16. The HRA indicator has increased slightly due to the final HRA revenue budget being less than that assumed in the original indicator.

7.3 Prudential indicator limits based on debt net of investments

- **Upper Limits On Fixed Rate Exposure** – This indicator covers a maximum limit on fixed interest rates.
- **Upper Limits On Variable Rate Exposure** – Similar to the previous indicator this identifies a maximum limit for variable interest rates based upon the debt position net of investments.

RMBC	2015/16 Original Indicator	Current Position	2015/16 Revised Indicator
Prudential indicator limits based on debt net of investments			
Limits on fixed interest rates based on net debt	100%	79.08%	100%
Limits on variable interest rates based on net debt	30%	20.09%	30%

7.4 **Maturity Structures Of Borrowing**

These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

The current position shown below reflects the next call dates on those Council's LOBO loans (£127m) that are not callable in 2015/16 and thus are regarded as fixed rate. The actual maturity date for most of these loans is greater than 50 years. This approach gives a better indication of risk and whilst there is a possibility that a loan is called with an increase in interest payable the likelihood of any LOBO loans being called in the current climate is assessed as zero for the next three years.

RMBC	2015/16 Original Indicator		Current Position		2015/16 Revised Indicator	
	Lower	Upper	%	£m	Lower	Upper
Maturity Structure of fixed borrowing						
Under 12 months	0%	35%	0.30%	1.143	0%	35%
12 months to 2 years	0%	35%	8.46%	32.292	0%	35%
2 years to 5 years	0%	40%	26.70%	101.917	0%	40%
5 years to 10 years	0%	40%	24.40%	93.156	0%	40%
10 years to 20 years	0%	45%	8.59%	32.800	0%	45%
20 years to 30 years	0%	50%	8.93%	34.097	0%	50%
30 years to 40 years	0%	50%	14.76%	56.336	0%	50%
40 years to 50 years	0%	55%	7.86%	30.000	0%	55%
50 years and above	0%	60%	0%	0.000	0%	60%

The former SYCC account is due to be wound up by the end of 2020/21 and the maturity structure is now largely fixed as the need and indeed opportunities to re-finance within the remaining 6 years will be limited. As a result future limits are currently set in line with the on-going maturity profile.

Former SYCC	2015/16 Original Indicator		Current Position		2015/16 Revised Indicator	
	Lower	Upper	%	£m	Lower	Upper
Maturity Structure of fixed borrowing						
Under 12 months	0%	50%	0.00%	0.000	0%	50%
12 months to 2 years	0%	70%	10.53%	10.000	0%	70%
2 years to 5 years	0%	100%	65.76%	57.020	0%	100%
5 years to 6 years	0%	100%	22.71%	19.689	0%	100%

7.5 Total Principal Funds Invested

These limits are set to reduce the need for the early sale of an investment, and show limits to be placed on investments with final maturities beyond each year-end.

The Council currently has no sums invested for periods exceeding 364 days due to market conditions. To allow for any changes in those conditions the indicator has been left unchanged. The above also excludes any Icelandic investments that are due to be recovered after more than 364 days.

RMBC	2015/16 Original Indicator £m	Current Position £m	2015/16 Revised Indicator £m
Maximum principal sums invested > 364 days	10	0	10
Comprising			
Cash deposits	10	0	10

Minimum Revenue Provision Policy Statement – Update

1. Background

- 1.1 Minimum Revenue Provision (MRP) arises because there is statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement - CFR), i.e. the borrowing taken out in order to finance capital expenditure.
- 1.2 Members will recall that the Council approved at the Council meeting on 8 July 2015 a change to the MRP policy statement for the annual MRP charges on pre 2007/08 debt applicable to the 2014/15 financial year and to be confirmed annually as required in respect of future years.
- 1.3 The previous methodology ensured the debt would be fully repaid in 500 years time long after the assets are no longer in use. It also resulted in higher repayments in the early years which has potentially a disproportionate impact on current Council Tax payers.
- 1.4 It was recognised a fairer way of matching the MRP charge to Council Tax payers with the use of the assets is to limit the repayment period to 50 years, this being an approximation of the average life for the Council's assets. In addition, it would seem fairer that future Council Tax payers pay an amount for the use of the assets comparable in real terms to that being paid by current Council Tax payers, therefore taking account of the time value of money in the future.
- 1.5 **The Council therefore approved the use of an annuity basis for calculating the annual MRP charges as this meets this need and that the revised methodology should be applied retrospectively to the start of 2007/08.**
- 1.6 An examination of the MRP charges made from 2007/08 revealed that the Council had over-provided during the period 2007/08 to 2013/14 and this over-provision was released back to revenue to ensure the total provision to the end of 2014/15 was in line with the reprofiled MRP schedule.

2. MRP Policy Statement

- 2.1 Statutory requirements do not allow for having a negative MRP charge in any financial year. Whilst the adjustment to the MRP schedule led to immediate benefits greater than the estimated MRP charge in 2014/15, the Council still made a positive charge in 2014/15, the adjustment made was a correction to the total amount previously provided for and was treated as a separate accounting transaction.

- 2.2 A paper was submitted to the Council's auditors, KPMG, setting out the Council's proposal with regard to the MRP in relation to pre 2007/08 debt. KPMG confirmed (27th May 2015) that they were not 'minded to challenge' the principles put forward as the basis of change in providing for MRP. However, in doing so they indicated that this did not 'fetter their discretion' to reconsider their position if new information comes to their attention. This reservation of position was in line with our expectation until such time as they give their opinion on the Council's 2014/15 Statement of Accounts.
- 2.3 Discussions have now taken place with KPMG following a further review of their understanding of the Council's approach. Whilst the general principles are not being challenged it has now been accepted by officers that the annual MRP charge for 2014/15 and the correction for the overprovision should not have been treated as separate accounting transactions and the two taken together should not have produced a negative amount within the revenue account. In other words the amount credited back to revenue in 2014/15 should not have exceeded the amount of MRP charge for that year.
- 2.4 By crediting back the overprovision to revenue and creating the earmarked reserve the effect was to create a negative impact within the revenue account. By adjusting the disclosure of this negative impact such that it is retained within the Capital Adjustment Account the Council will have control over the release of the overprovision and this release will not be contrary to the MRP policy which requires a charge greater than zero.
- 2.5 There is no requirement to restate the 2014/15 financial statements but the 2015/16 accounts will be amended for the impact of this change. In addition KPMG have also recommended that clarification should be built into the wording of the approved MRP Policy Statement.
- 2.6 The current Policy Statement reads as follows:
- (a) The MRP charge in relation to capital expenditure incurred prior to 2007/08 where the expenditure was funded by either supported or unsupported borrowing will be calculated using the expected useful life of the asset and the calculation of the provision will be by the annuity method;
 - (b) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by either supported or unsupported borrowing will be calculated using the expected useful life of the asset at the point the asset is brought into use. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate; and
 - (c) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by a 'capitalisation directive' (e.g. equal pay) will be calculated on the basis of the specified period(s) set down within the regulations. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate.

- 2.7 It is proposed that this is amended by the addition of a further section, (d), and the suggested form of words is 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 an 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 charge 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”***

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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