

**AUDIT COMMITTEE  
19th April, 2017**

Present:- Councillor Wyatt (in the Chair); Councillors Cowles, Ellis, Bernard Coleman, Allen and Walsh.

Also in attendance: Mr. T. Cutler and Mrs. A. Warner (KPMG).

Councillor Alam, Cabinet Member, Corporate Services and Finance, was in attendance for Minute No. 68 (Finance and Customer Services Risk Register).

**55. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS**

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

**56. MINUTES OF THE PREVIOUS MEETING HELD ON 8TH FEBRUARY, 2017**

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 8<sup>th</sup> February, 2017. The Committee noted that:-

(a) (Minute No. 43 – Audit Committee Self-Assessment) – a document is to be distributed to all Members prior to the next meeting, detailing the strengths and weaknesses of the Committee; the document will be considered at the Committee’s next meeting in July 2017;

(b) (Minute No. 47 – Local Code of Corporate Governance) - preparatory work has begun on the Annual Governance Statement, although the Governance Group has not yet had its first meeting;

(c) (Minute No. 50 – Procurement and Appointment of External Auditors – 2018/19 Onwards) – the recommendation within this Minute had been approved by the Council at its meeting held on 8th March, 2017 (Minute No. 140 refers);

(d) (Minute No. 52 – Risk Register Deep Dive – Assistant Chief Executive) – Members of the Committee requested the provision of a briefing note setting out the proposed work plan and agenda items for Committee meetings, for the forthcoming 2017/2018 Municipal Year. The Head of Internal Audit agreed to provide a Forward Work Plan to each committee meeting.

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

**57. EXTERNAL AUDIT AND INSPECTION RECOMMENDATIONS**

Further to Minute No. 37 of the meeting of the Audit Committee held on 23rd November, 2016, consideration was given to a report, presented by the Head of Service (Performance and Planning), Children and Young People's Services, stating that, in accordance with the Council's "fresh start" improvement plan (Minute No. 8 of the Council meeting held on 22nd May, 2015, refers), progress continued to be made against the recommendations from all of the key external audits and inspections. The report included detail of progress being made in respect of the following specific areas and Directorates:-

- : the "Fresh Start" Improvement Plan;
- : Adult Care and Housing;
- : Children and Young People's Improvement Plan;
- : Rotherham Residential Children's Units;
- : Regeneration and Environment Services;
- : Finance and Corporate Services.

The summary of recommendations from "Active" Inspection and Audit Action Plans was appended to the submitted report.

The Audit Committee's discussion of this matter highlighted the following salient issues:-

- (i) implementation of the Council's Corporate Plan 2016/17;
- (ii) further monitoring visits of Children and Young People's Services by the Office for Standards in Education (Ofsted) in early May 2017 around Care Leavers and a full four week re-inspection will take place later in 2017 or early 2018
- (iii) the audit of the Council's accounts for the 2016/17 financial year will begin during July, 2017;
- (iv) consideration of the contents of the post-inspection letters received after the Ofsted monitoring visits of Children and Young People's Services (October, 2016 and February, 2017); both letters were appended to the submitted report;
- (v) ensuring that the senior management of the Council (the vast majority of whom are recent or fairly recent appointments) receive a sufficient amount of induction training in respect of the challenges facing the Council as part of the improvement process;
- (vi) progress with the implementation of Phase Two of the Government-appointed Commissioners' action plan and the transfer of uncompleted elements of Phase One into Phase Two; the Joint Board of the four Commissioners and Elected Members (Leader, Deputy Leader, Leader of the Opposition and Lead Cabinet Member) meet and review the Phase

Two progress; it was also noted that ensuring compliance with the action plan was a priority of the Council's Senior Leadership Team;

(vii) arrangements for the annual health assessments and dental checks for the Children Looked After by the Local Authority have improved.

Resolved:- (1) That the report be received and its contents noted.

(2) That the governance arrangements that are currently in place for monitoring and managing the recommendations from external audits and inspections, as now reported, be noted.

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

(4) That a further progress report on these matters be submitted to a meeting of the Audit Committee to be held during November, 2017.

**58. INSPECTION BY THE OFFICE OF THE SURVEILLANCE COMMISSIONERS**

Further to Minute No. 32 of the meeting of the Audit Committee held on 23<sup>rd</sup> November, 2016, consideration was given to a report, presented by the Assistant Director of Legal Services, stating that on 11th January, 2017, the Council had been inspected by His Honour Norman Jones QC, an Assistant Surveillance Commissioner in respect of the Council's arrangements to secure compliance with the statutory provisions which govern the use of covert surveillance. Included as an appendix to the submitted report was a copy of His Honour's Inspection Report as well as a covering letter from the Chief Surveillance Commissioner. The documents contained the main findings of the Inspection Report and how His Honour's recommendations will be implemented by the Council.

Members were informed that:-

(i) His Honour's Inspection Report was a very positive one;

(ii) a briefing will be presented to a future meeting of the M3 Managers' group, which will ensure that managers understand the risk of conducting unauthorised covert surveillance;

(iii) arrangements are being made for a cost-effective training programme for officers to act as controllers and handlers of Covert Human Intelligence Sources; and

(iv) the Council is required to amend its RIPA (Regulation of Investigatory Powers Act 2016) Policy in order to comply with the recommendations within His Honour's Inspection Report.

Reference was made to the Council's use of overt camera surveillance (requiring the use of public information notices) and also to the Council's Licensing Policy in respect of the use of cameras within licensed hackney carriages and private hire vehicles.

The Committee placed on record its thanks to the Council officers who had been involved in His Honour's inspection process.

Resolved:- (1) That the report be received and its contents noted.

(2) That the Inspection Report by His Honour Norman Jones QC of the Council's arrangements to secure compliance with the statutory provisions which govern the use of covert surveillance, as now submitted, be received and its contents noted.

(3) That the necessary action to be taken to implement the findings and recommendations of His Honour's Inspection Report be approved.

(4) That the required amendment to the Council's Regulation of Investigatory Powers Act (RIPA) Policy, as set out in paragraphs 26 and 27 of His Honour's Inspection Report, be approved.

(5) That a seminar be arranged for all Members of the Council in respect of the Council's Regulation of Investigatory Powers Act (RIPA) Policy and the use of covert surveillance cameras.

**59. CLOSURE OF THE ACCOUNTS 2016/17**

Consideration was given to a report, presented by the Assistant Director of Financial Services, stating that the Council's financial statements are prepared in accordance with recognised accounting standards so that they can be relied upon by users of the accounts. The submitted report explained the main changes to the local authority accounting framework in 2016/17, including their effect on the Council's accounting policies.

Members noted that the report also highlighted the steps being taken to prepare for the faster closure of the accounts, necessary to meet the tighter reporting timetable which are coming into effect from 2017/18 (unaudited financial statements to be published by 31st May and audited financial statements to be published by 31st July).

The following information was included in the appendices to the submitted report:-

- Key accounting issues and changes to the accounts in 2016/17;
- Changes to the Council's accounting policies.

Members discussed issues concerning (i) the imminent triennial revaluation of the Local Government Pension Scheme; and (ii) confirmation that the Highways Infrastructure Assets will continue to be stated in the balance sheet on the existing basis.

Resolved:- (1) That the report be received and its contents noted.

(2) That the key accounting issues and main changes to the accounts in 2016/17, as contained in Appendix A to the report now submitted, be noted.

(3) That the changes to the Council's accounting policies that have been made as a result of changes to the local authority accounting framework, as contained in Appendix B to the report now submitted, be noted.

**60. KPMG ANNUAL REPORT ON GRANTS AND RETURNS 2015/16**

Further to Minute No. 51 of the meeting of the Audit Committee held on 10th February, 2016, consideration was given to a report, presented by the Assistant Director of Financial Services and by Mrs. A. Warner (KPMG), concerning the annual feedback, provided by external auditor KPMG, on the effectiveness of the Council's arrangements for preparing and submitting Government grant claims and returns.

The external auditor's report summarised KPMG's key findings from the certification work carried out in 2015/16. The Committee was informed that KPMG were required to audit three claims and returns in 2015/16. Two claims were unqualified and minor errors were found in relation to the third, the Housing Benefit Subsidy claim. The minor errors identified did not impact on the amount of grant claimed. These findings demonstrated that the Council continued to have good arrangements in place to support the preparation and submission of grants and returns. There were no additional recommendations required as a consequence of the feedback provided by KPMG.

Resolved:- That the report be received and its contents noted.

**61. EXTERNAL AUDIT PLAN 2016/17**

Further to Minute No. 7 of the meeting of the Audit Committee held on 20th July, 2016, consideration was given to a report, presented by Mr. T. Cutler (KPMG), describing the KPMG External Audit Plan in respect of the 2016/17 financial year.

The report stated that, as the Council's external auditor, KPMG has a duty to:

- give an opinion on the Council's financial statements; and

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- conclude on whether the Council has arrangements in place to secure value for money in the use of its resources.

The External Audit Plan document was included as an appendix to the submitted report and set out the audit approach that KPMG were planning to take to discharge these duties.

The main proposed areas identified audit were:-

: Financial statements and audit planning (risk assessment; determination of materiality level; issuing of audit plan to communicate with audit strategy);

: Risk assessment (management override of controls; fraudulent revenue recognition);

: Significant Audit Risks (Local Government Pension Scheme Triennial Valuation; Waste Management PFI Valuation; Changes in Finance Team staff);

: Disclosures associated with retrospective restatement of the Comprehensive Income and Expenditure Statement (CIES), the Expenditure and Funding Analysis (EFA) and the Movement in Reserves Statement (MiRS).

The External Audit Plan set out the risks which KPMG have identified as requiring special audit attention, which may prevent them from being able to reach a positive Value For Money conclusion, namely:

- The extent to which Governance arrangements have improved since the Corporate Governance report was issued in February 2015, and
- The Council's financial resilience in the face of having to make substantial savings over the next three years.

Members were informed that KPMG would report their Value For Money Conclusion findings in the ISA 260 report to be submitted to a meeting of the Audit Committee during September, 2017.

Resolved:- (1) That the report be received and its contents noted.

(2) That KPMG's External Audit Plan for the 2016/2017 financial year, as now submitted, be approved and the proposed areas of audit identified be noted.

## 62. INTERNAL AUDIT STRATEGIC PLAN 2017/18 TO 2019/20

Further to Minute No. 71 of the meeting of the Audit Committee held on 27th April, 2016, consideration was given to a report, presented by the Head of Internal Audit, concerning the Internal Audit Strategic Plan for the three years' period 2017/2018 to 2019/2020.

The report explained the Internal Audit approach to the development of the Strategic Plan, as well as detailing the specific activities to be reviewed during the three years' period of the Plan. It was noted that the Plan reflected a comprehensive risk assessment process, which also included discussions with the Council's Strategic Directors and Assistant Directors to obtain their views of key risks and areas for audit coverage.

The Committee discussed the following salient issues:-

: the staffing resources of the Internal Audit Section;

: other issues arising, during the period of the Strategic Plan, which might require audit and have a consequent effect upon progress with the Strategic Plan;

: the conversion of schools to academies; staffing and pensions issues;

: auditing of Local Authority maintained schools; the use of Control and Risk Self-Assessment questionnaires to obtain specific information about schools;

: routine reporting to the Audit Committee about the list of audit reviews being undertaken and the progress of those reviews and their impact upon the Internal Audit Strategic Plan (this matter would also be considered at the forthcoming work-plan meeting of the Overview and Scrutiny Management Board, to be held on Friday, 21st April, 2017);

: the Audit Committee noted the role of the Cabinet in monitoring the progress of Service Area reviews.

Resolved:- (1) That the report be received and its contents noted.

(2) That the Internal Audit Strategic Plan for the three years' period 2017/2018 to 2019/2020, as now submitted, be approved.

(3) That reports about the progress of the implementation of the Internal Audit Strategic Plan 2017/2018 to 2019/2020 be submitted to meetings of the Audit Committee at regular intervals.

### **63. AUDIT COMMITTEE PROSPECTUS 2017/18**

With reference to Minute No. 43 of the previous meeting of the Audit Committee held on 8th February, 2017 (Audit Committee Self-Assessment), it was agreed that consideration of this item be deferred until the next meeting of the Committee to be held during July, 2017.

**64. ANNUAL GOVERNANCE STATEMENT REVIEW FOR 2016-17**

Further to Minute No. 19 of the meeting of the Audit Committee held on 21st September, 2016, consideration was given to a report, presented by the Corporate Risk Manager, concerning the Annual Governance Statement for the 2016/2017 financial year, which the Council is required to produce alongside the financial statements for the year. The report made reference to:-

: the six areas of concern within the Annual Governance Statement for the previous year, 2015/16;

: two matters from the 2014/15 Annual Governance Statement, which were still outstanding on completion of the 2015/16 Statement; and

: the submitted report included a brief summary of the progress being made in respect of the eight matters referred to above.

The Committee also noted that the 2015/16 Annual Governance Statement had mentioned issues relating to the two reports prepared by Professor Alexi Jay and by Dame Louise Casey and that those issues were part of the Council's "fresh start" improvement plan. It was confirmed that the 2016/17 Annual Governance Statement would include full information on the progress of the Council's "fresh start" improvement plan.

Resolved:- (1) That the report be received and its contents noted.

(2) That the information contained within the submitted report concerning the progress being made in respect of the eight matters of concern from the two previous years' Annual Governance Statements be noted.

(3) That the 2016/17 draft Annual Governance Statement be submitted for consideration at the next meeting of the Audit Committee to be held during July, 2017.

**65. ITEMS FOR REFERRAL FOR SCRUTINY**

Further to Minute No. 62 above, concerning the Internal Audit Strategic Plan, it was agreed that the routine reporting to the Audit Committee about the list of audit reviews being undertaken and the progress of those reviews and their impact upon the Internal Audit Strategic Plan would also be referred for consideration at the forthcoming work-plan meeting of the Overview and Scrutiny Management Board, to be held on Friday, 21st April, 2017.

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

Resolved:- That under Section 100A(4) of the Local Government Act 1972, the 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 1 of Schedule 12(A) of such Act indicated, as now amended by the Local Government (Access to Information) (Variation) Order 2006 (information relates to finance and business affairs).

**67. INTERNAL AUDIT PROGRESS REPORT FOR THE PERIOD 1ST JANUARY 2017 TO MID-MARCH 2017**

Consideration was given to a report, presented by the Head of Internal Audit, which contained a summary of Internal Audit work completed during the period January, 2017 to mid-March, 2017 and the key issues which had arisen from that work. The report also included information about the performance of the Internal Audit function during the same period.

Performance against key indicators was generally positive, although targets for the time to complete audits and issue draft reports were not achieved. The audit plan had been reviewed and amended at the half-year. It was noted that delivery against the amended audit plan was on schedule. Members were informed that two partial assurance audit opinions had been issued during the period January, 2017 to mid-March, 2017, one for Children's Direct Payments and the other for Adults' Supported Living.

Details of the work undertaken during the stated period in were included in the Appendix to the report submitted.

The Committee discussed the following specific issues:-

- (i) the Internal Audit Plan should in future include the date of completion
- (ii) the Audit Committee should be formally notified of the reasons for any issue taking longer than twelve months to complete; with an explanation from the appropriate Head of Service as necessary;
- (iii) the Assistant Chief Executive shall attend the next meeting of the Audit Committee and explain the processes in place in respect of the salary payment matter now reported.

Resolved:- (1) That the report be received and its contents noted.

(2) That the Internal Audit work undertaken during the period January, 2017 to mid-March, 2017 and the key issues that had arisen from that work, as now reported, be noted.

(3) That the information contained in the report, regarding the performance of Internal Audit and the actions being taken by management in respect of the performance, be noted.

**68. FINANCE & CUSTOMER SERVICES RISK REGISTER**

Councillor Alam, Cabinet Member, Corporate Services and Finance, together with Judith Badger, Strategic Director, Finance and Customer Services, presented the Finance and Customer Services Risk Register, in particular highlighting:-

- The way in which the Risk Register was maintained/monitored and the frequency of monitoring;
- Cabinet Member involvement;
- How risks were entered onto and removed from the Risk Register;
- Anti-fraud activity in the Directorate.

Discussion took place on:-

: the insurance risk concerning claims from victims of child sexual exploitation;

: support for the Government-appointed Commissioners to the Council and the implementation of the decision-making protocols.

Resolved:- (1) That the report be received and its contents noted.

(2) That the progress and current position in relation to risk management activity in the Finance and Customer Services Directorate be noted.

**69. DATE OF NEXT MEETING**

Resolved:- That the next meeting of the Audit Committee be held at the Town Hall, Rotherham on Wednesday, 19th July, 2017, commencing at 4.00 p.m.