

## **AUDIT COMMITTEE**

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

**Date: Wednesday, 7 December  
2011**

**Time: 4.00 p.m.**

## **A G E N D A**

1. To determine if the following matters are to be considered under the categories suggested in accordance with the Local Government Act 1972.
2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.
3. Minutes of the previous meeting held on 19th October, 2011 (herewith) (Pages 1 - 3)
4. Review of Progress Against the Internal Audit Plan for Seven Months ending 31st October, 2011 (report herewith) (Pages 4 - 17)
5. Annual Audit Letter 2010/11 (report herewith) (Pages 18 - 28)
6. Bribery Act 2010 (report herewith) (Pages 29 - 33)
7. Audit Committee Update Issue 6 - Partnerships' Governance (report herewith) (Pages 34 - 47)
8. Audit Committee Self Assessment (report herewith) (Pages 48 - 65)

**AUDIT COMMITTEE  
19th October, 2011**

Present:- Councillor Sangster (in the Chair); Councillors Gilding, Kaye and Sims.

An apology for absence was received from Councillor License.

**P20. MINUTES OF THE PREVIOUS MEETING HELD ON 28TH SEPTEMBER, 2011**

Resolved:- That the minutes of the previous meeting held on 28th September, 2011 be agreed as a correct record.

**P21. AUDIT AND INSPECTION RECOMMENDATIONS UPDATE REPORT**

Consideration was given to a report presented by Sue Wilson, Performance and Quality Manager, which summarised the progress against recommendations from across all key external audits and inspections of Council services.

The report was intended to provide a high level analysis of progress with a particular focus on outstanding recommendations and new inspections since the date of the last report in July, 2011.

The Audit Committee noted that since the last report there have been no new inspections or external assessments.

There were currently ten action plans relating to Inspection and Audit recommendations which were still "active" and across these action plans nine recommendations have been completed since the last report and fifteen remain outstanding

There were sixteen recommendations in relation to outstanding audit and inspection recommendations. A number had experienced some slippage against original target dates, although there were no new areas of concern.

As reported previously the following services were due inspections within the next six months:-

- Food Standards Agency Audit (NAS).
- Fostering Services (CYPS).
- Adult and Community Learning (CYPS).
- Children's Services Assessment 2011 (CYPS).
- Customer Service Excellence - Continuous Appliance Assessment November 2011 (CEX).

Performance and Quality Teams were supporting the services with their preparations for these assessments and inspections.

Discussion ensued on the inclusion of 2010 Rotherham Ltd. in the inspection plan and the reasoning behind this, along with the inspection frameworks for the specific areas.

Resolved:- That the progress achieved against outstanding actions be noted.

**P22. CUSTOMER INSPECTION SERVICE**

Consideration was given to a report presented by Sue Wilson, Performance and Quality Manager, which set out a summary on the Customer Inspection Service, which had been formed in Neighbourhoods and Adults Services in 2005, and had since been implemented in Children and Young People's Services and Environment and Development Services.

The Service provided information on customer experiences to help inform priority-setting and ensure that learning from service successes or failures were used to improve services and provide consistently better results in the future. Working in partnership with real Customer Inspectors contributed to positive outcomes with numerous inspectors and regulatory assessments; along with achievement of a number of unique awards and accolades.

Further information was provided on the Customer Inspectors and how the service was made up.

The Audit Committee welcomed this very informative report and its findings and asked for regular updates on progress.

Resolved:- (1) That the outcomes and future developments of the Customer Inspection Service be noted.

(2) That a progress report be submitted to the Audit Committee in six months time.

**P23. MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING REPORT 2011/12**

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which provided a mid-year Treasury Review, as required in the Regulatory Framework of Treasury Management (2009). The report also fulfilled the requirement of the Prudential Code to ensure adequate monitoring of capital expenditure plans and activity. It also encompassed economic outlook and actual and proposed borrowing and investment.

The assumptions supporting the capital financing budget for 2011/12 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.

The Treasury Management and Investment Strategy was not forecast to have any further revenue consequences other than those identified and planned for in both the Council's 2011/12 Revenue Budget and approved MTFs.

Further information was sought on future action on PFI schemes, the current position with regards to Icelandic Banks, potential for long term borrowing and the role of Audit.

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

(2) That the report be referred to Cabinet to consider recommending that Council approve changes to prudential indicators.

**P24. CORPORATE RISK REGISTER**

Consideration was given to the report presented by Andrew Bedford, Strategic Director of Finance, which set out a summary of the newly formatted Corporate Risk Register that recorded the risks associated with the Council's most significant priorities and projects and the actions being taken to mitigate the risks.

The Corporate Risk Register had recently been streamlined to emphasise the Council's most significant risks and the key actions and developments relating to these risks. The risks were displayed in descending order to emphasise the most significant risks faced by the Local Authority.

It was noted that the four inherent risks were:-

- Managing Government budget restrictions – unable to maintain key services due to budgetary limits.
- Unable to deliver effective Children's Services within budget.
- Funding of the Digital Region Project to provide comprehensive broadband facilities across South Yorkshire.
- Sustaining improvement in Children's Services post DfE intervention.

Discussion ensued and further information was provided on the potential liabilities of funding the Digital Region Project, the percentage of risk to Rotherham, why it was considered a "red" risk and the action of the four South Yorkshire Councils and the Department for Business, Innovation and Skills to ensure the ongoing viability of the project.

Resolved:- (1) That the revised Corporate Risk Register summary be noted.

(2) That the current top four corporate risks be approved.

(3) That any further risks identified be added to the Risk Register.

**ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE**

<b>Meeting:</b>	Audit Committee
<b>Date:</b>	7 <sup>th</sup> December 2011
<b>Title:</b>	Review of Progress Against the Internal Audit Plan for Seven Months ending 31 <sup>st</sup> October 2011
<b>Directorate:</b>	Resources

**5. Summary.**

This report contains a summary of Internal Audit's work and performance for the seven months ending 31<sup>st</sup> October 2011. The service has achieved good performance in the period, exceeding most of its stretch targets.

The audit work completed to date has confirmed the Council has a robust overall control environment.

**6. Recommendations.**

**The Audit Committee is asked to:**

- **note the performance of the Internal Audit Service during the period**
- **note the key issues arising from the work done in the period**
- **note the revisions made to the Audit Plan.**

## 7. Proposals and Details.

### 7.1 Reason for this Report.

This report summarises the main activities of the Internal Audit service for the first seven months of 2011/12. The report is presented to the Audit Committee to enable the Committee to fulfil its responsibility to oversee the work of Internal Audit. The report summarises:

- performance against key service benchmarks
- planned audit reports issued during the period, highlighting the overall conclusion for each audit
- the number of high priority recommendations made
- the proportion of recommendations agreed / not agreed
- a summary of responsive work undertaken
- revisions to the Audit Plan required at this point in the year
- an analysis of use of audit resources
- a summary of key service developments during the period.

### 7.2 Performance Indicators.

7.2.1 Our performance against a number of indicators is summarised in the table below:

Performance Indicator	2009/10	2010/11	2011/12 Target	April to October 2011
Draft reports issued within 15 days of field work being completed.	90%	90%	91%	96%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	100%
Chargeable Time/Gross Time.	62%	62%	63%	64%
Audits completed within planned time.	82%	93%	93%	90%
Percentage of Audit Plan completed.	86%	84%	86%	85%*
Cost per Chargeable Day.	£307	£291	£270	£266
Client Satisfaction Survey.	90%	89%	90%	96%

\* extrapolated from performance to date

7.2.2 A key target for the section for the year is to maximise chargeable time and successful performance in this respect so far has resulted in a substantially lower cost per chargeable day than in previous years. Client satisfaction has been excellent in the period. Our performance on the completion of audits within planned time is slightly below target. This has

been due to auditors identifying issues requiring further investigation whilst undertaking planned audit activity. We have also had the occasional delay due mainly to the need to obtain further information / clarification on specific issues following completion of the field work.

7.2.3 The achievement of these standards represents very good performance when taking into account a reduced level of resources this year and a loss of some productive time as a result of the move to Riverside House.

### **7.3 Planned Audit Reports and Recommendations.**

**Appendix A** shows the audit reports issued and agreed during the first seven months of the year. Audit findings in all areas indicated that satisfactory control arrangements were in place and testing confirmed that these controls were operating effectively during the period under review. However, our work shows that there are opportunities to strengthen arrangements in some areas. Implementation of Internal Audit's recommendations for improvement will reduce the Council's exposure to risks.

### **7.4 Responsive Audits.**

**Appendix B** summarises responsive work carried out in the period, which can be categorised into two main areas:

- investigative work
- requests for advice and assistance.

A total of 227 auditor days has been spent on responsive work to date representing approximately 11% of available resources. Examples of the more significant areas examined in the period include:

a) CYPS: Primary School Childcare Club

Following a request by the Head Teacher, Internal Audit carried out an investigation into alleged irregularities in the administration of childcare income at a Primary School Childcare Club. This investigation found that income from childcare vouchers had been withdrawn without authorisation from the club bank account by a member of staff. During the course of investigatory interview this member of staff handed over nearly £4,000 in cash to the Principal Auditor conducting the interview. Internal Audit prepared a report and evidence pack for the Head Teacher and Human Resources for use in the disciplinary hearing. However, the member of staff resigned before the hearing could be arranged. Recommendations have been made by Internal Audit to strengthen procedures and controls and these are now being implemented by the school. These recommendations are also being considered by management in CYPS in terms of their relevance to other schools and children's centres throughout the Borough.

b) EDS: Car Park Income

Following a request by the Parking Services Manager, Internal Audit investigated the loss of car park income during April and May 2011. A surveillance operation was carried out by Internal Audit which quickly identified instances where cash income appeared to have been

misappropriated by a Civil Enforcement Officer. Comparison of income records against staff rotas would suggest that other previously identified losses may be attributable to the same employee although this cannot be proven. Internal Audit has prepared a report and evidence pack for management in EDS and Human Resources for use in a disciplinary hearing. The employee has been suspended pending the hearing.

c) CYPS: Children's Home

Internal Audit received information regarding alleged financial irregularities in the administration of petty cash and children's monies at a Children's Home. Advice was provided to the Operational Manager for Children's Homes on the conduct of the management investigation and recommendations were made to strengthen procedures and controls to help prevent future irregularities arising.

d) Internal Audit is carrying out other current investigations, including reviewing complaints into:

- Failure by an officer to follow proper procedures in awarding funding to a third party organisation and failure by the organisation to pay its consultants for work done, and
- Failure by an officer to make a declaration of interest while arranging for services to be provided by a company which the officer has an interest in.

## 7.5 Revised Audit Plan.

As part of our usual audit planning process we look to ensure that our plan is refreshed on an ongoing basis to reflect the fast changing environment in which the Council operates. A number of original planned audits are to be postponed to ensure we focus on mandatory work and the Council's key risks.

Revisions to the original 2011/12 Audit Plan are being made as follows:

<b>Additional Audits / Emerging Risks</b>		
<b>Service Area</b>	<b>Audit Area</b>	<b>Comment</b>
CYPS	Sixth Form Funding	Request by senior management in CYPS.
Financial Services	Review of Council's Financial Regulations	Revision needed to bring the Regulations up to date with Council changes

<b>Audits Postponed to 2012/13</b>		
<b>Service Area</b>	<b>Audit Area</b>	<b>Comment</b>
CYPS	Thorpe Hesley Infant School	Deferred to 2012/13 – allows time for review of sixth form funding as referred to above.
NAS	National Developments relating to Council House Right to Buy	Deferred to 2012/13 – not a key issue at the present time, although we will keep abreast of central government policy development.



## 7.6 Analysis of Use of Audit Resources

The Audit Plan presented to the Audit Committee in June identified the time available for internal audit during the year, the expected number of chargeable audit days and expected usage of available time. An analysis of the actual use of audit resources compared to the profiled budget at the end of October 2011 has been undertaken. This has revealed that time spent on service development and the completion of 2010/11 financial year audits has been higher than originally expected, with time spent on professional training and management review being less than planned at this stage.

A table showing a detailed analysis of the actual use of audit resource compared to the Plan is shown at Appendix C to this report.

## 7.7 Summary of Key Service Developments During the Period

Rotherham Internal Audit continues to work in partnership with Doncaster Internal Audit to further improve the efficiency and effectiveness of our working practices. Some of the main projects that are being progressed include:

**Audit of Core Financial Systems** – adoption of a more risk based approach to reduce time spent whilst continuing to meet KPMG requirements, International Auditing Standards and professional standards.

**Anti Fraud and Corruption Work** – updating of Anti Fraud and Corruption Strategies, to include the provisions of the Bribery Act 2010.

**Review of Approach to Schools Audit** – reduction in audit resources has accelerated the imperative to change our working practices. This has resulted in increased emphasis being placed on thematic reviews which aim to add value to our schools. Early indications appear to show very positive feedback from schools to this approach.

Reviews carried out by Internal Audit in this area include:

- Review of arrangements for letting capital contracts
- Review of building cleaning provision in schools
- Review of Schools Catering Service
- Review of extended schools childcare provision

**Council Budget Reductions** – We are considering the implications for control arrangements of any changes resulting from the implementation of Council-wide savings (e.g. changes to structure and/or processes that could affect the internal control environment). Also as part of this work, we are looking at the processes in place for managing the delivery of savings.

**Work for other Local Authorities / External Bodies** – As part of the partnership approach with Doncaster MBC's Internal Audit, a member of staff is currently working on the production of a strategic plan for ICT Audit for both Doncaster Council and St Leger Homes, the housing Arms Length Management Organisation in Doncaster. We have also provided advice to the Internal Audit section at Barnsley Council on ICT security issues, which has generated additional income for the service.

**8. Finance.**

There are no financial implications arising from this report.

**9. Risks and Uncertainties.**

Failure to deliver an effective internal audit function would weaken the Council's internal control arrangements and increase the risk of erroneous and / or irregular activities.

**10. Policy and Performance Agenda Implications.**

The strength of Internal Audit impacts upon the Council's internal control environment. A sound control environment is part of good governance, which is wholly related to the achievement of the objectives in the Council's Corporate Plan.

**11. Background Papers and Consultation.**

Detailed audit reports.

**Contact Names:**

*Colin Earl, Director of Audit and Governance, x22033*

*Marc Bicknell, Internal Audit Manager, x23297*

**Appendices:**

Appendix A: Summary of Planned Audits Completed: April – October 2011

Appendix B: Summary of Internal Audit Responsive Work: April – October 2011

Appendix C: Analysis of Use of Audit Resources: April – October 2011

**Summary of Planned Audits Completed: April – October 2011**

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
<b><u>Chief Executive's Directorate</u></b>						
"Going Local" INTERREG Grant Claim	n/a	n/a	n/a	n/a	n/a	Adequate
Risk Management: Chief Executive's Directorate	2	1	1	0	0	Adequate
<b><u>Children and Young People's Services Directorate</u></b>						
Aston Lodge Primary School	22	22	0	0	0	Adequate
Brinsworth Whitehill Primary School	15	Awaiting Reply	Awaiting Reply	0	0	Adequate
Brampton Ellis Junior School	14	14	0	0	0	Adequate
Flanderwell Junior and Infant School	18	18	0	0	0	Adequate
High Greave Junior School	24	Awaiting Reply	Awaiting Reply	0	0	Adequate
Maltby St Mary's Catholic Primary School	17	17	0	0	0	Adequate
Rawmarsh Ryecroft Infant School	10	10	0	0	0	Adequate
Rawmarsh Ashwood Primary School	12	12	0	0	0	Adequate
Rawmarsh St Joseph's Catholic Primary School	22	22	0	0	0	Adequate
St. Bede's Catholic Primary School	26	26	0	0	0	Adequate
Swallownest Primary School	8	8	0	0	0	Adequate
Wath Victoria Junior and Infant School	16	16	0	0	0	Adequate
Wickersley St Alban's Primary School	22	22	0	0	0	Adequate
Dinnington Comprehensive School	28	28	0	0	0	Adequate
Rawmarsh Community School and Sports College	20	Awaiting Reply	Awaiting Reply	0	0	Adequate
Winterhill School	15	Awaiting Reply	Awaiting Reply	0	0	Adequate
Kelford School	26	Awaiting Reply	Awaiting Reply	0	0	Adequate

**Summary of Planned Audits Completed: April – October 2011**

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
Looked After Children: Out of Borough Placements	2	2	0	0	0	Adequate
Devolved Capital Spending in Schools *	8	Awaiting reply	Awaiting reply	0	0	Adequate
School extended services: childcare (follow up to investigation of irregularity)	8	Awaiting Reply	Awaiting Reply	0	0	Adequate
Children's Social Services Locality Teams	9	Awaiting Reply	Awaiting Reply	0	0	Adequate
Schools Cleaning Contracts	4	Awaiting Reply	Awaiting Reply	0	0	Adequate
Review of School Bank Account Scheme	1	Awaiting Reply	Awaiting Reply	0	0	Adequate
Review of Financial Regulations for Schools	1	Awaiting Reply	Awaiting Reply	0	0	Adequate
<b><u>Neighbourhoods and Adult Services Directorate</u></b>						
Risk Management: Neighbourhoods and Adult Services	1	1	0	0	0	Adequate
Licensing Service	6	6	0	0	0	Adequate
<b><u>Environment and Development Services Directorate</u></b>						
Risk Management: Environment and Development Services	11	11	0	0	0	Adequate
Carbon Reduction Commitment Energy Efficiency Scheme *	14	14	0	0	0	Adequate
Grounds Maintenance	3	Awaiting Reply	Awaiting Reply	0	0	Adequate
<b><u>Financial Services Directorate</u></b>						
Risk Management: Financial Services	4	4	0	0	0	Adequate
Payment of Parish Precepts	1	1	0	0	0	Adequate

**Summary of Planned Audits Completed: April – October 2011**

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
<b>Grants</b>						
Housing Market Renewal Pathfinder Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Local Ambition Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Growth Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Stroke Usage Grant	n/a	n/a	n/a	n/a	n/a	Adequate
<b>ICT Audit</b>						
Data Back Up and Storage	5	5	0	0	0	Adequate
Domiciliary Carers and Warden Service Web Rostering System	2	2	0	0	0	Adequate
File Controls - EDRMS	7	Awaiting Reply	Awaiting Reply	0	0	Adequate

\* Forwarded to Overview and Scrutiny Management Board for consideration

**Summary of Internal Audit Responsive Work: April – October 2011**

<b>Description</b>
<b><u>Chief Executive's Directorate / Corporate</u></b>
Certification of 'Timely Information to Citizens' Grant Claim.
Advice provided on financial administration of Mayor's Charity in accordance with Charity Commission guidelines and 'best practice'.
Advice provided to ICT client function regarding the risks / control implications of using a 'cloud' based solution to support the Electronic Data Records Management System (EDRMS).
Investigation into allegations of grant paid to a third sector organisation and use of the grant.
Advice provided to the Community Engagement Team regarding the adequacy of monitoring arrangements surrounding payments to community groups.
Advice provided to the Commissioning Team regarding the Council's right of access to the accounting records of a contractor.
<b><u>Children and Young People Services Directorate</u></b>
Investigation into alleged irregularities in the administration of childcare income at a primary school (see above 7.4).
Advice provided regarding investigation of alleged financial irregularities and the strengthening of procedures at a children's home (see 7.4 above).
Compilation of response to a Freedom of Information request regarding payments made to the Common Purpose organisation in respect of the 'Your Turn' programme.
Advice provided to a primary school on the requirements of Financial Regulations for Schools and the Fair Funding Scheme in respect of lease agreements.
Advice provided to a children's centre regarding payments made to families in need on behalf of a charity.
Advice provided to a comprehensive school regarding correct procedures governing the payment, in exceptional circumstances, of pro-forma invoices.
Advice provided to a primary school regarding correct procedures for making an ex-gratia payment to a member of staff whose car was vandalised whilst on official business.
Provided assistance with an investigation into a complaint made against the Extended Learning Services Section by a member of the public (see 7.4 above)
Advice to a comprehensive school regarding best practice in procurement processes.
Advice provided in respect of the use of direct debits by schools with bank accounts.
Investigation into allegations of non compliance with competitive procurement requirements of Financial Regulations for Schools at a primary school. Allegations were not proven, but advice was provided to strengthen procedures and controls for the future.
Advice provided on security arrangements following the theft of petty cash at a children's home.

**Summary of Internal Audit Responsive Work: April – October 2011**

<b>Description</b>
Investigation into allegations that an employee at a Council children's centre was working elsewhere whilst off sick. No evidence was found to substantiate the allegations.
Advice provided to the Schools Catering Service regarding correct procedures for disposal of surplus equipment.
Advice provided to a comprehensive school regarding the procedures for accounting for VAT.
<b><u>Environment and Development Services Directorate</u></b>
Investigation into loss of car park income (see 7.4 above).
Advice provided regarding the requirements of Contract Standing Orders in relation to procurement of security services for Ulley Country Park.
Advice provided on the process for the disposal of floral displays previously used in Council buildings.
Investigation, following an anonymous 'phone call, of alleged misuse of a Council vehicle by a member of staff.
Advice provided to Asset Management on quotation / tender thresholds when dealing with aggregated value contracts.
Advice provided to Highways and Transportation regarding the competitive procurement requirements of Contract Standing Orders.
Advice provided to Parking Services regarding procedures for the refund of contract parking payments.
Advice provided to Asset Management regarding renegotiation of a contract.
Advice provided to Asset Management regarding the use of a Smartcard Security System at the new Riverside House civic offices.
Advice given regarding request for grant payment to be made in foreign currency.
Advice provided to Green Spaces to strengthen procedures following the loss of a cash float at one of the Council's urban parks.
Advice provided to Culture and Leisure regarding the disposal of assets at the Civic Theatre.
<b><u>Financial Services Directorate</u></b>
Assistance provided to colleagues from Finance to ensure that there was a complete audit trail to evidence expenditure on the 2007 floods as part of an EU audit.
Advice provided to Director of Finance regarding procedures for production of cheque payments run in light of impending move to new office accommodation.
Advice provided to Voluntary Action Rotherham regarding verification of funding to third sector organisations.
Analysis undertaken of payments made on mobile phone contracts, highlighting instances where line rentals were being paid, but call volumes were minimal or nil.

**Summary of Internal Audit Responsive Work: April – October 2011**

<b>Description</b>
Advice provided to Accountancy Services on changes to procedures for processing journals.
<b><u>neighbourhoods and Adult Services Directorate</u></b>
Advice provided regarding financial controls in light of proposed introduction of appointeeships in Adult Social Services.
Advice provided on proposed developments to the Care Assessment process within the SWIFT system.
Advice regarding NAS adaptations and quotation process.
Investigation into irregularities in the system for arranging services for disabled people through the Direct Payments system.
<b><u>RBT</u></b>
Advice provided on proposed changes to the system for making Council Tax refunds by cheque.
Advice provided to HR and Payroll on process for the recovery of a redundancy payment made to an incorrect bank account.
Advice provided with respect to a Freedom of Information Request and a benefit claimant complaint.
Advice about a proposal to carry out changes to checks currently made to verify single person discount claims.
Review of honoraria payments to staff.



**Analysis of use of Audit Resources April – October 2011****Analysis of use of Audit Resources**

	<b><u>Budget</u></b>	<b><u>Profiled</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
		<b><u>Budget</u></b>		
		<b><u>(Periods</u></b>		
		<b><u>1-7)</u></b>		
<b>Gross Days Available</b>	<b>3468</b>	<b>2023</b>	<b>2019</b>	<b>-4</b>
<b>Less</b>				
Leave (Annual / Statutory / Concessionary / Other)	545	318	403	+85
Elections	10	6	5	-1
Sickness	53	31	40	+9
Service Development	0	0	41	+41
Professional Training and CPD	134	78	50	-28
Management and Review	150	88	80	-8
Admin and Clerical	120	70	86	+16
Professional Meetings	46	27	34	+7
	<b>Less</b>	<b>1058</b>	<b>618</b>	<b>739</b>
				<b>+121</b>
<b>Gross Audit Days Available</b>	<b>2410</b>	<b>1405</b>	<b>1280</b>	<b>-125</b>
<b>Less</b>				
2010/11 Work Brought Forward / Follow Up Work	94	55	81	+16
Review of Audit Files and Reports	160	93	65	-18
	<b>Less</b>	<b>254</b>	<b>148</b>	<b>146</b>
				<b>-2</b>
<b>Net Audit Days Available for 2011 / 2012</b>	<b>2156</b>	<b>1257</b>	<b>1134</b>	<b>-123</b>
Responsive Audits	410	239	227	-12
Planned Audits	1746	1018	907	-111

There are a number of variances between budget and actual in relation to the number of audit days available. The most significant of which are:

**Analysis of use of Audit Resources April – October 2011**

- Annual Leave is higher than the profiled budget at the end of period 7 because many staff use their leave entitlement during the summer months.
- Sickness absence is slightly higher than expectation, but remains low compared to the Council average.
- Time spent on Service Development and Admin and Clerical is higher than expectation, largely due to the move to Riverside House as a member of staff has been involved in supporting other areas of Financial Services with the implementation of EDRMS and Worksmart initiatives.
- Time spent on professional training is below budget. This is because a decision was made early in the financial year to place increased emphasis on low-cost “on the job” training due to the high costs associated with external professional training at a time when the Council is facing severe budget pressures.
- Time spent on the completion of 2010/11 work was slightly higher than expectation. This was largely spent on completion of the audit of fundamental financial systems on behalf of the Council’s external auditor, KPMG.
- Time spent on responsive work is slightly under budget. Whilst Internal Audit has received a large volume of responsive work during the period, it has often been possible to conclude investigations speedily by working in partnership with colleagues in directorates and from HR. In addition, by investing time in the production of the Annual Audit Plan, we have found that many areas that would have been previously classed as responsive work had already been planned for. We will need to keep this under review to ensure that our Plan is kept up to date to reflect the rapidly changing environment in which the Council currently operates.
- Time spent on planned work is slightly below budget. It is expected that this will pick up over the next few months as we start our work on the Council’s fundamental financial systems.

**ROTHERHAM METROPOLITAN BOROUGH COUNCIL**  
**REPORT TO AUDIT COMMITTEE**

<b>1. Meeting:</b>	<b>Audit Committee</b>
<b>2. Date:</b>	<b>7<sup>th</sup> December 2011</b>
<b>3. Title:</b>	<b>Annual Audit Letter 2010/11</b>
<b>4. Directorate:</b>	<b>Resources</b>

### **5. Summary**

The Annual Audit Letter (AAL) 2010/11 summarises the external audit work in relation to the 2010/11 audit plan and highlights the findings in relation to the following:

- Audit of accounts 2010/11
- Value For money Conclusion
- Other Reviews completed.

A copy of their AAL is attached to this report.

### **6. Recommendation**

**Audit Committee notes the sustained, very positive Annual Audit Letter (AAL) presented to the Council by its external auditors, KPMG LLP.**

## 7. Proposals and details

The Annual Audit Letter (AAL) 2010/11 is KPMG's summary of audit work for the 2010/11 year.

This year's AAL highlights the work completed in relation to the audit plan and the presentation of **all** external audit recommendations previously reported through to Management and/or Members. We have confirmed with KPMG that there is no recommendation that they consider to be significant and of such priority that Management needs to draw it to Members attention. Such confirmation is a reflection of the **very positive** audit assessment for the 2010/11 year. It also shows the Council's Financial Services function (part of the Council's Resources Directorate) to be in a strong position to proactively support the Council in meeting the significant financial challenges facing the local government sector.

In summary the main headlines from the AAL are:

- The Council's Accounts were given an **Unqualified audit opinion** and officers received significant praise from KPMG LLP with regard to their **proactive approach, dedication and commitment** to restating our Financial Statements in response to the International Financial Reporting Standards; and
- The Council had put in place proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness in the use of its finite resources.

## 8. Financial Implications

There are no financial implications resulting from this report.

## 9. Risks and Uncertainties

Failure to continue to maintain robust financial management and internal control arrangements could lead to less positive conclusions being reached by KPMG LLP in its 2011/12 Annual Audit Letter.

KPMG LLP, in its 2011/12 audit plan have highlighted their intention to focus on continuing to assess the Council's financial resilience and how it is prioritising resources within tighter budgets.

## 10. Policy and Performance Agenda Implications

The Council's ability to deliver robust financial management and internal control arrangements will continue to be assessed as part of the 2011/12 external audit work.

**11. Background Papers and Consultation**

KPMG Annual Audit Letter 2010/11

**Contact Names:**

**Stuart Booth**, Director of Finance, Resources Directorate, Ext: 22034,  
[stuart.booth@rotherham.gov.uk](mailto:stuart.booth@rotherham.gov.uk)



*cutting through complexity™*

# Annual Audit Letter 2010/11

Rotherham Metropolitan Borough Council

15 November 2011

**The contacts at KPMG in connection with this report are:**

**Stephen Clark**

*Director*

*KPMG LLP (UK)*

Tel: 0113 231 3148

stephen.clark@kpmg.co.uk

**Rashpal Khangura**

*Senior Manager*

*KPMG LLP (UK)*

Tel: 0113 231 3396

rashpal.khangura@kpmg.co.uk

**Robert Mitchell**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 0113 231 3356

robert.Mitchell3@kpmg.co.uk

**Report sections**

- Headlines

**Page**

2

**Appendices**

1. Key issues and recommendations
2. Summary of reports issues

4

6

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 has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission’s website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Stephen Clark, the appointed 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](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG’s work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission’s complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.



## Section one Headlines

**This report summarises the key findings from our 2010/11 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 2010/11 financial statements and the 2010/11 VFM conclusion.**

<b>VFM conclusion</b>	<p>We issued an unqualified value for money ('VFM') conclusion for 2010/11 on 30 September 2011.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
<b>VFM risk areas</b>	<p>We have considered a number of major strategic decisions / schemes that the Authority have faced and continue to face as part of our VFM work. As part of this work we have reviewed the reintegration of 2010 Rotherham Ltd, the move to increasing the number of shared services that the Authority are involved in and the latest position on the combined waste PFI project. These areas have provided some strong evidence of innovation, service review and cost benefit analysis to support our VFM opinion.</p> <p>Furthermore, we reviewed the Authority's response to the Ofsted notice to improve initially issued in December 2009 and then updated in December 2010.</p>
<b>Audit opinion</b>	<p>We issued an unqualified opinion on your financial statements on 30 September 2011. 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>
<b>Financial statements audit</b>	<p>This year's financial statements were the first to be prepared under International Financial Reporting Standards (IFRS). Officers took an early proactive approach to this conversion process and this has clearly paid dividends. Officers sought early guidance from KPMG on their proposed adjustments, which meant that there has been early dialogue and agreement on many issues prior to the final audit visit starting.</p> <p>Like most local authorities, the Authority has prepared their financial statements, whilst under pressure from funding cuts introduced by the local government settlement announced in late 2010. A finance team re-structure was also taking place throughout the final audit visit.</p> <p>Given the above mentioned challenges, the fact that officers met the reporting timeframes, produced good quality working papers and dealt efficiently with audit queries, demonstrates the officers' commitment and dedication.</p> <p>Our review of the IFRS restated Statement of Accounts has highlighted that there have been no material errors which is commendable given the scale of the conversion process. Our audit identified one minor adjustment relating to the disclosure of HRA rent arrears which was corrected by the Authority in the Audited Statement of Accounts.</p> <p>We have identified no control weaknesses in addition to those that we reported from our interim communication in July 2011.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2009/10</i> relating to the financial statements.</p>





## Section one Headlines (continued)

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Annual Governance Statement	We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.
Certificate	We issued our certificate on 30 September 2011. The certificate confirms that we have concluded the audit for the year ended 31 March 2011 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our fee for 2010/11 was £323,681 excluding VAT which is in line with the fee that we proposed at the start of the audit cycle.

This appendix summarises the high and medium priority recommendations that we identified during our 2010/11 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

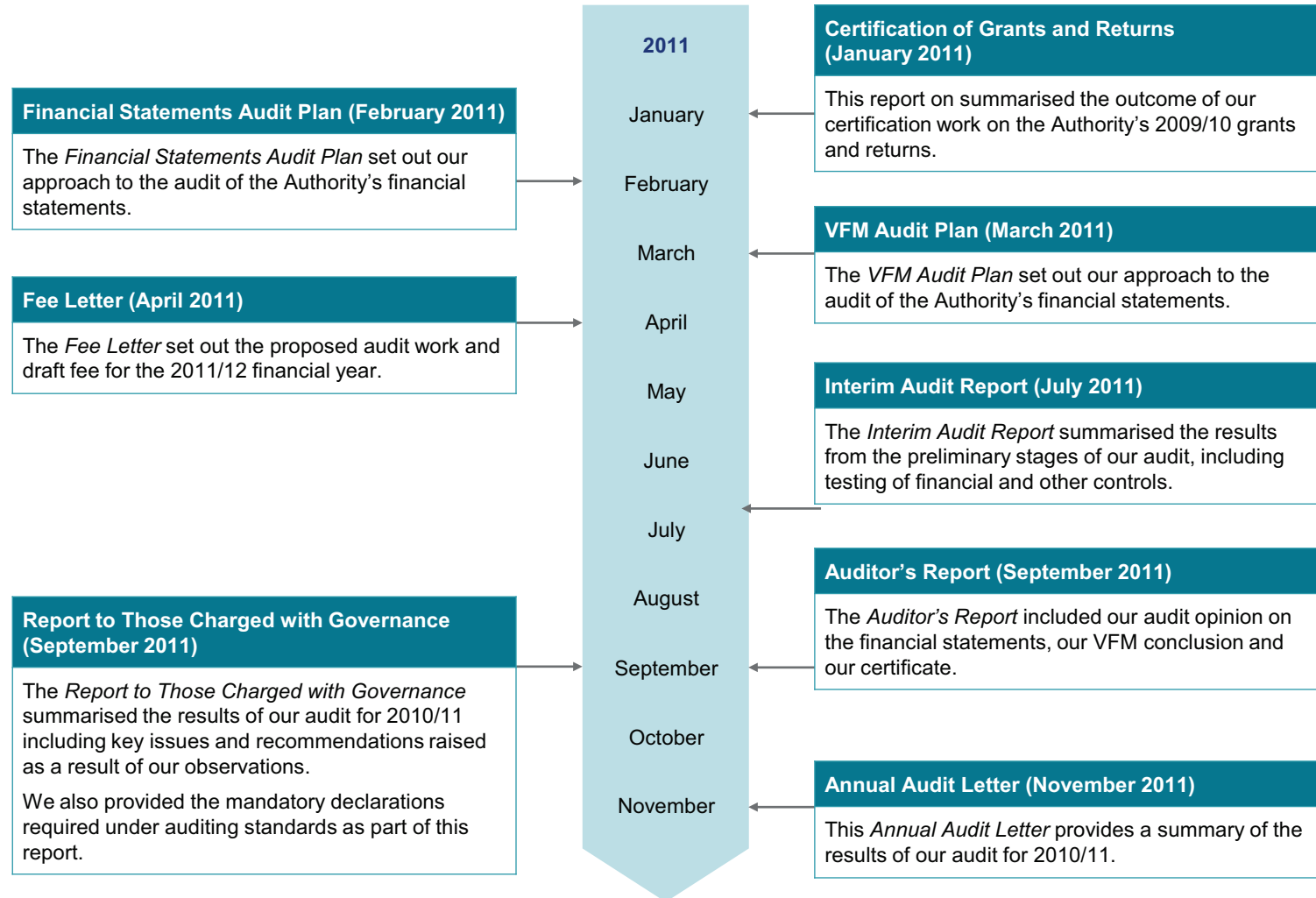
No.	Issue and recommendation	Management response/ responsible officer/ due date
<b>Interim Recommendations – July 2011</b>		
1	<p><b>IT Access Controls</b></p> <p><i>Description</i></p> <p>We have identified a number of instances where user access controls are not operating effectively and / or there are performance improvement points that the Authority should consider:</p> <p>Our findings can be summarised as:</p> <p>A. PSe New User - Access request forms were not available for six out of thirteen new accounts created on PSe within the financial year. This was due to the HR service centre staff setting up new users at the verbal request of their team leaders without the authorisation forms being completed.</p> <p>B. CedAr 'Ghost' Users - A review of CedAr active accounts found three which belonged to staff no longer employed by the Authority. An inspection of the access log showed that the accounts had been accessed since the date the users officially left. Whilst we have no evidence that these accounts have been inappropriately used, it does create a risk that these accounts can be misused.</p>	<p>The Management for each service will review the ongoing effectiveness of the IT access controls and where appropriate (and able to) will consider the actions that need to be taken</p> <p><b>Due Date</b></p> <p>September 2011</p>

This appendix summarises the high and medium priority recommendations that we identified during our 2010/11 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response/ responsible officer/ due date
	<p>C. Radius 'Ghost' Users - A review of active users found eight active Radius user accounts which belonged to staff who had left the Council in the year. This observation indicates a weakness in the operation of the timely removal of leavers' accounts on the system. Whilst we identified no inappropriate activity, it is possible that individuals could gain access to the system after they have left. This creates a risk of fraud or errors relating to transaction processing and financial reporting.</p> <p>D. CedAr / Northgate / PSe Access Reviews – We identified that there is no evidence that review of user access rights have been carried out within CedAr and Northgate. Inappropriate access was identified in the CedAr system only.</p> <p>These observations present a risk over the integrity of system security which could lead to inappropriate access. The impact could be exposure to fraud or erroneous processing within the Authority's financial data. Whilst we have identified a number of instances where 'ghost' accounts have been accessed, this has been for the purpose of running tailored reporting attached to the account.</p> <p>The user access controls become even more pertinent given the current restructuring and cost saving program that the Authority is undergoing.</p> <p><i>Recommendation</i></p> <p>We recommend that the Authority review its approach to monitoring and controlling access to core financial systems. This should be prioritised through considering the controls around revoking access rights of leavers to prevent the existence of 'ghost' employees as this presents the highest risk to the Authority.</p>	

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





*cutting through complexity™*

© 2011 KPMG LLP, a UK public limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

<b>ROTHERHAM BOROUGH COUNCIL - REPORT TO AUDIT COMMITTEE</b>
--

<b>1.</b>	<b>Meeting:</b>	Audit Committee
<b>2.</b>	<b>Date:</b>	7th December, 2011
<b>3.</b>	<b>Title:</b>	Bribery Act 2010
<b>4.</b>	<b>Directorate:</b>	Resources Directorate

### 5. Summary

This report refers to the Bribery Act 2010, which came into force on 1<sup>st</sup> July 2011 and consolidated the law on bribery. It covers offences of –

- offering, promising or giving of a bribe (active bribery) and the requesting, agreeing to receive or accepting of a bribe (passive bribery);
- bribery of foreign public officials; and
- failure to prevent a bribe being paid on an organisation's behalf.

Failure to prevent a bribe is a new offence which can be committed by commercial organisations, which includes for this purpose a local authority. An organisation has a defence however if it can prove on the balance of probability that despite an incident of bribery it had adequate procedures in place to prevent persons associated with it from bribing.

The Council has a number of measures in place designed to prevent incidents of bribery. Internal Audit colleagues are currently updating the Council's Anti-fraud Strategy & Corruption Policy to reflect the requirements of the Act and will be making certain recommendations to the Audit Committee shortly. In addition to the anti-fraud policy, there are a number of other council documents that will require updating, for example Standing Orders, Financial Regulations, the Code of Official Conduct and model contract clauses.

### 6. Recommendations

**The Audit Committee is asked:-**

- **To note the main provisions of the Bribery Act 2010**
- **To support the work being done by Legal Services and Internal Audit to refresh and update the Council's documents and procedures in light of the Bribery Act 2010 and guidance on the Act published by the Secretary of State for Justice.**

## 7. Proposals and details

### *Introduction*

The Bribery Act 2010 came into force on 1<sup>st</sup> July 2011 and consolidated the law on bribery. It replaced the offences at common law and under the Prevention of Corruption Acts 1889 – 1916 with two general offences: the first deals with bribery and the second deals with being bribed. The basis of a bribe is an intention to induce improper conduct.

The Bribery Act is not concerned with fraud, theft, books and record offences, Companies Act offences, money laundering offences or competition law.

A bribe has three elements: (i) that the person making the payment makes it to the agent of the other person with whom he is dealing; (ii) that he makes it to that person knowing that that person is acting as the agent of the other person with whom he is dealing; and (iii) that he fails to disclose to the other person with whom he is dealing that he has made that payment to the person whom he knows to be the other person's agent.

### *Offences*

The 2010 Act creates offences of –

- offering, promising or giving of a bribe (active bribery) and the requesting, agreeing to receive or accepting of a bribe (passive bribery);
- bribery of foreign public officials; and
- failure to prevent a bribe being paid on an organisation's behalf.

### *Active and passive bribes*

A person commits an offence (i) by offering, promising or giving a financial or other advantage to another person where he intends to bring about the improper performance by another person of a relevant function or activity or to reward such improper performance; or (ii) he knows or believes that the acceptance of the advantage offered, promised or given in itself constitutes the improper performance of a relevant function.

“Improper performance” means performance which amounts to a breach of an expectation that a person will act in good faith, impartially, or in accordance with a position of trust. The offence applies to both the public and private sector, including bribery relating to any function of a public nature, connected with a business, performed in the course of a person's employment or performed on behalf of another company or another body of persons.

In deciding whether a function or activity has been performed improperly, the test is what a reasonable person in the UK would expect in relation to the performance of that function or activity.

### *Failure to prevent a bribe*

Failure to prevent a bribe is a new offence which can be committed by commercial organisations, which includes for this purpose a local authority. The offence is committed where a person associated with the organisation bribes another person

intending to obtain or retain business or an advantage in the conduct of business for that organisation.

An organisation has a defence however if it can prove on the balance of probability that despite an incident of bribery it had adequate procedures in place to prevent persons associated with it from bribing.

A person is associated with an organisation where the person “performs services” for or on behalf of the organisation. The word “person” is given a broad meaning and may be an individual, a company or unincorporated association, such as a community group. Agents and subsidiaries are included as well as employees who are presumed to be performing services for their employer.

The question of association is however ultimately to be determined from all of the relevant circumstances and not simply by reference to the nature of the relationship between the person concerned and the organisation.

Consequently, contractors could be “associated” persons when performing services on the organisation’s behalf, and in certain circumstances suppliers could be too if they are providing services and not just supplying goods.

In the case of supply chains involving several organisations, or a contract with a main contractor and several sub-contractors, the Act’s reach is considered to extend no further than immediate contractual relationships. The risk inherent in such arrangements may be mitigated however by requesting the counterpart of each party in the chain to adopt a similar approach to bribery prevention with its counterpart.

The new offence is in addition to the other bribery offences that may be committed by persons who are running an organisation and considered to be the “directing mind” or will of the organisation.

In order to be liable for failure to prevent a bribe, an organisation must have failed to prevent conduct that would be an active or passive bribe, but a person need not have been convicted of an active or passive bribe before the offence of failing to prevent such conduct is engaged. Nevertheless, the prosecution must still be able to prove beyond reasonable doubt an active or passive bribery offence before the failure offence is triggered.

Whether an organisation’s bribery prevention procedures are adequate depends on the facts of each case, including consideration of the level of control over the activities of the associated person and the degree of risk that requires mitigation.

#### *Guidance*

At the heart of the Act is the core principle of proportionality, which essentially requires an organisation to have in place procedures that are proportional to the level of risk of bribery that it faces.

Guidance issued by the Secretary of State for Justice under the Act contains details of procedures an organisation can put in place to prevent bribing on their behalf. These are informed by six principles, which are set out at **Appendix A** to this report.



The Council has a number of measures in place designed to prevent incidents of bribery and fraud all of which embrace the Secretary of State's six principles. Internal Audit colleagues are currently updating the Council's Anti-fraud Strategy & Corruption Policy to reflect the requirements of the Act and will be making certain recommendations to the Audit Committee shortly. In addition to the anti-fraud policy, there are a number of other council documents that will require updating, for example Standing Orders, Financial Regulations, the Code of Official Conduct and model contract clauses.

## **8. Finance**

Other than officer time, there are no direct financial implications from this report.

## **9 Risks and Uncertainties**

Having properly documented policies and procedures to guard against bribery reduces the risk of the Council being found to have failed to prevent bribery.

## **10 Policy and Performance Agenda Implications**

Guarding against incidents of bribery safeguards the use of public funds and accords with the Council's Corporate Plan and Community Strategy.

## **11 Background Papers and Consultation**

Bribery Act 2010

Guidance on the 2010 Act published by the Secretary of State for Justice

**12 Contact:** [richard.waller@rotherham.gov.uk](mailto:richard.waller@rotherham.gov.uk)

Telephone: (01709) 823121

E-mail: [Richard.waller@rotherham.gov.uk](mailto:Richard.waller@rotherham.gov.uk)

## APPENDIX A

### The Bribery Act 2010

#### Guidance of Secretary of State for Justice

#### Principles

##### **Principle 1: Proportionate procedures**

A commercial organisation's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of the commercial organisation's activities. They are also clear, practical, accessible, effectively implemented and enforced.

##### **Principle 2: Top-level commitment**

The top-level management of a commercial organisation (be it a board of directors, the owners or any other equivalent body or person) are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable.

##### **Principle 3: Risk assessment**

The commercial organisation assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented.

##### **Principle 4: Due diligence**

The commercial organisation applies due diligence procedures, taking a proportionate and risk based approach, in respect of persons who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.

##### **Principle 5: Communication (including training)**

The commercial organisation seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training, that is proportionate to the risks it faces.

##### **Principle 6: Monitoring and review**

The commercial organisation monitors and reviews procedures designed to prevent bribery by persons associated with it and makes improvements where necessary.

<b>ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE</b>
--

<b>1.</b>	<b>Meeting:</b>	Audit Committee
<b>2.</b>	<b>Date:</b>	7 December 2011
<b>3.</b>	<b>Title:</b>	Audit Committee Update Issue 6 – Partnerships' Governance
<b>4.</b>	<b>Directorate:</b>	Resources

### 5. Summary

The Audit Committee's work programme provides for briefings to be presented to the Committee on any significant publications issued on any areas covered by the Committee's terms of reference.

The Better Governance Forum has recently issued the sixth Audit Committee Briefing Paper. The purpose of the publication is to provide Members with direct access to relevant and topical information that will support them in their role. This briefing provides information on partnerships' arrangements and the extent of scrutiny on such arrangements by audit committees.

The Council has done more work and is better placed than most in this area. The briefing paper includes Rotherham's arrangements as a case study of good practice.

### 6. Recommendations

**The Audit Committee is asked to note the contents of the Better Governance Forum briefing paper and in particular the positive reference made to Rotherham's arrangements in relation to partnerships' governance.**

## 7. Proposals and Details

This report refers to a recent briefing paper for Audit Committee Members provided by the Better Governance Forum. The purpose of the publication is to provide Members with direct access to relevant and topical information that will support them in their role. This briefing, attached at **Appendix 1**, provides information on partnerships' arrangements and the extent of scrutiny on such arrangements by audit committees.

The briefing suggests that sometimes audit committees have only a limited view of partnerships and assurance arrangements can be far from clear. In a recent survey of audit committees in local government, only 3% of respondents considered their audit committee to be very effective in assuring partnership arrangements.

The briefing suggests audit committees should adopt a more proactive role in assuring themselves that sound governance arrangements are in place, including:

- Ensuring there is appropriate consideration of partnership arrangements within the process for producing the Annual Governance Statement.
- Reviewing Internal Audit reports on partnership arrangements and key partnerships
- Ensuring there are appropriate risk management arrangements for partnerships and that risk registers exist
- Obtaining assurance that there are robust arrangements for in place for whistleblowing and managing the risk of fraud.

The Council has done more work and is better placed than most in this area. The briefing paper includes Rotherham's arrangements as a case study of good practice.

The briefing highlights actions required in 2 key areas. These are repeated below along with comments on current arrangements at Rotherham Council:

Key Questions	Comments
<p><b><i>Assurance on partnerships</i></b> Does the assurance framework underpinning the Annual Governance Statement adequately cover partnerships? What conclusions on partnership working were made in the Annual Governance Statement? Are there any actions you should be monitoring? Are risk management arrangements in place to cover partnership risks? Are they effective? What other existing assurances do you have on partnerships, for example the internal audit annual report? Has the organisation identified all its significant partnerships? Is the list up to date?</p>	<p><i>Partnerships' arrangements are integrated into the Council's governance framework and have been reviewed annually as part of the process for producing the Annual Governance Statement.</i></p> <p><i>The arrangements in place were found to be satisfactory, with some improvement actions noted.</i></p> <p><i>The Council's risk management arrangements cover partnerships and partnerships have been encouraged to produce their own risk registers.</i></p> <p><i>Internal Audit considers partnerships for coverage in its audit plan as part of the annual audit planning process. Any coverage is based on an assessment of risks.</i></p> <p><i>The Council's list of significant partnerships is kept up to date on a regular basis.</i></p>

Key Questions	Comments
<p><b><i>Supporting good governance in partnerships</i></b>            What advice or policy is available to cover partnership governance arrangements? For example, many have a 'protocol' or handbook that sets out who is responsible and what should be put in place.</p> <p>Find out what the audit committees of partner organisations do in relation to the partnership. Perhaps there are opportunities to work together?</p> <p>Consider whether decision making in partnerships is transparent and whether accountability is clear.</p> <p>Consider whether the initiatives that your organisation takes to improve governance should also be developed within the partnership. For example if you undertake ethical awareness training, could that be extended to the partnership?</p>	<p><i>The Council has a governance framework for partnerships, which is supported by more detailed guidance.</i></p> <p><i>The Council and partner organisations discuss partnership issues at the 'Rotherham Audit Committee'. Other services have agreed to adopt Rotherham's governance framework and the PCT has adopted the Council risk register template.</i></p> <p><i>The governance framework covers decision making, performance management, financial management and ethical arrangements.</i></p> <p><i>Joint development issues can be considered through the Rotherham Audit Committee.</i></p>

## 8. Finance

There are no direct financial implications arising from this report.

## 9. Risks and Uncertainties

The Audit Committee has a key role to play in supporting the application of good governance principles. The information and guidance contained within this briefing will help Members to perform their roles in a positive way.

## 10. Policy and Performance Agenda Implications

The Audit Committee's work is wholly related to the achievement of the objectives in the Council's Corporate Plan.

## 11. Background Papers and Consultation

Better Governance Forum – Audit Committee Update 6

### Contact Name:

*Colin Earl, Director of Audit & Asset Management, x22033*

**CIPFA Better Governance Forum**

# Audit Committee Update

- helping audit committees to be effective

**Issue 6**

**Partnerships from the audit committee perspective**

**October 2011**

## Introduction

Dear Audit Committee Member

Welcome to our sixth issue.

We have produced these briefings for audit committee members for almost two years now and I hope they are being widely used.

Being an audit committee member is a demanding but interesting role. Committee agendas cover such a broad range of topics that committee members are constantly learning something new. The pace of change in the public sector means that there are always new challenges and new expectations. We hope that these briefings can make the job of audit committee member easier.

In this issue we tackle the subject of partnerships from the point of view of the audit committee. We know this is one of your most challenging areas so I hope this will be a timely resource. I am pleased to feature an article from Paul Hughes of Grant Thornton in this issue also. Paul provides a topical insight into partnerships and how the audit committee can address the challenges.

As ever, we welcome comments and feedback on the briefing. Please let us know what you think.

Best Wishes

Diana Melville  
CIPFA Better Governance Forum

## Future issues of this briefing

The next issue is planned for January and will focus on planning assurance.

We are also starting to plan future issues. Possible topics include:

- Value for Money
- Scrutiny of treasury management
- Evaluating the effectiveness of internal audit
- Information governance risks

## Receive our briefings directly

This briefing will be sent to all contacts of organisations that subscribe to CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

If you have an organisational email address (for example [jsmith@mycouncil.gov.uk](mailto:jsmith@mycouncil.gov.uk)) then you will also be able to register on our website and download any of our guides and briefings directly. Register now, please click here

[http://www.ipf.com/ipfvalidation/login/register\\_visitor.asp?dest=www.cipfanetworks.net](http://www.ipf.com/ipfvalidation/login/register_visitor.asp?dest=www.cipfanetworks.net)

We now have a web page dedicated to audit committees featuring the key resources you need. Go to <http://www.cipfanetworks.net/governance/auditcommittees/> to see for yourself.

## Workshops and training for audit committee members in 2011 and 2012 from CIPFA

### **Audit Committees in Wales**

1<sup>st</sup> December 2011, Cardiff

**During 2012 we will continue to run open training events for audit committee members.**

#### **Effective audit committees:**

- Role of the audit committee
- Good governance and the audit committee
- Working with internal and external auditors
- Introduction to risk management

#### **Advanced audit committees, addressing the audit committee role in relation to:**

- Counter fraud arrangements
- Strategic risk management
- Treasury management
- Value for money

**We will also be developing a new audit committee programme to be launched in March 2012.**

Dates, locations and full programme details will be published on the CIPFA training and Better Governance Forum websites. <http://www.cipfanetworks.net/governance/events/>

### **In house training and consultancy support**

In house training tailored to your needs is available.

We can provide in house training for audit committees on a range of topics. Key areas are highlighted below:

- Good practice in audit committees
- Understanding good governance
- Audit committee role in risk management
- Working with internal and external auditors
- Reviewing the financial statements
- Counter fraud
- Value for money
- Scrutiny of treasury management
- Partnerships
- Assurance planning

For further details contact Claire Simmons on 0208 6678542 or [Claire.Simmons@cipfa.org.uk](mailto:Claire.Simmons@cipfa.org.uk) or visit the website <http://www.cipfanetworks.net/training/portfolio/>



## The Audit Committee role in partnership governance

### What are the issues?

Partnership working has caused many challenges over the last few years and many of them are around issues that concern audit committees. A lot of effort has gone in to improving the effectiveness of partnerships and partnership governance, but there continue to be challenges. Sometimes the audit committee has only a limited view of partnerships and assurance arrangements can be far from clear.

In our recent survey of audit committees in local government heads of internal audit flagged up partnerships as one of the areas where their audit committee was least effective. Only 3% considered their audit committee to be very effective in assuring partnership arrangements. Details are set out in the table below.

Issue	Very effective %	Quite effective %	Neither effective / ineffective	Quite or very ineffective %
Assuring partnership arrangements	3	23	47	28
Engagement with partners	3	21	49	28

For full details on the survey results see the [commentary](#).

### The Audit Committee role

The audit committee should consider significant partnerships as part of their regular agendas. Key areas of activity are likely to include:

- Assurance on partnership governance as part of the Annual Governance Statement.
- Internal Audit reports on partnership arrangements and key partnerships
- Risk registers and risk management arrangements for partnerships
- Arrangements for counter fraud work or whistleblowing arrangements in the partnerships.

There are many aspects of partnership working that merit review but it is important that the audit committee role is clearly defined to avoid overlap with the work of other committees or bodies. The audit committee role is not to manage the partnership or to scrutinise the policy & decision making by that partnership, although the audit committee would want assurance that these arrangements are in place and operating effectively. For example in local government a scrutiny committee may undertake scrutiny of the policy & performance of partnerships that fall within their area of interest.

#### Case Study, the Rotherham Audit Committee

In Rotherham, the Council's Audit Committee has worked with members of the audit committees of partner organisations including Police, Housing and the NHS to create the 'Rotherham Audit Committee'. Part of the remit of the Rotherham Audit Committee is to develop and review the governance arrangements of significant partnerships. As part of this, the respective organisations adopted the Council's partnerships governance model and the joint Audit Committee has regularly reviewed compliance with the model, including assessing the financial management, performance management, decision making and ethical arrangements of the partnerships.

Of specific interest to audit committees will be how partnerships contribute to good governance generally. For example the audit committee will want assurance that there are appropriate arrangements to identify & manage risks, ensure good governance and arrangements for

assurance. They will want to know what arrangements have been put in place to maintain accountability to stakeholders and to ensure there is transparency of decision making.

## Future developments in partnerships

As well as maintaining their strategic partnerships, public bodies are likely to develop more complex service delivery arrangements in partnership with other public bodies in response to financial challenges. Getting the governance right for such arrangements needs careful planning. Where an organisation is developing such arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over their own responsibilities in relation to the new service delivery organisation.

## Reviewing the audit committee's approach

It is worth reviewing how effective your audit committee is in getting assurance on partnerships and what the audit committee itself contributes to good governance in partnerships. The following challenge questions would be a useful starting point:

### *Assurance on partnerships*

- Does the assurance framework underpinning the Annual Governance Statement adequately cover partnerships?
- What conclusions on partnership working were made in the Annual Governance Statement? Are there any actions you should be monitoring?
- Are risk management arrangements in place to cover partnership risks? Are they effective?
- What other existing assurances do you have on partnerships, for example the internal audit annual report?
- Has the organisation identified all its significant partnerships? Is the list up to date?

### *Supporting good governance in partnerships*

- What advice or policy is available to cover partnership governance arrangements? For example, many have a 'protocol' or handbook that sets out who is responsible and what should be put in place.
- Find out what the audit committees of partner organisations do in relation to the partnership. Perhaps there are opportunities to work together?
- Consider whether decision making in partnerships is transparent and whether accountability is clear.
- Consider whether the initiatives that your organisation takes to improve governance should also be developed within the partnership. For example if you undertake ethical awareness training, could that be extended to the partnership?

## Further information

The following references provide further resources on partnership governance.

[Best Value Toolkit](#), Effective partnership working, Audit Scotland

[Governing partnerships](#), Audit Commission

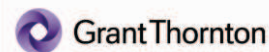
Risk management guidance note number 11 – [partnership risk management](#),

Diana Melville

Governance Advisor

## Partnership Working: translating ambition into success

Paul Hughes, Director, Public Sector, Grant Thornton UK LLP



### Introduction

Partnership is a word that can mean different things to different people. In a public sector context it has been used to describe such things as shared management teams, shared services, strategic partnering, joint ventures and other incorporated delivery vehicles, unincorporated partnerships, commissioning, outsourcing, co-design, co-production, and even straight forward contracting arrangements. At times it seems that it can be used to describe any activity where one individual or organisation works with another.

The present Government's policies, such as those relating to the Big Society and Open Public Services agendas, alongside the deficit reduction programme, are ramping up the need for public sector organisations to consider - more seriously than ever before - alternative forms of service delivery with other public sector bodies, the private sector and civil society organisations, including possible "spin offs" from their own organisation.

As local authorities and other public sector organisations react to the challenges of the Government's policy agenda and the financial imperatives of the Spending Review 2010, Audit Committees must respond to associated challenges. This includes having the necessary assurances that the governance and risk arrangements required for all the various types of partnership activity are fit for purpose.

### How have partnerships fared so far?

The previous Government's Total Place initiative identified that the nature and complexity of the outcomes public bodies are seeking to deliver for their localities require them to work together more collaboratively. The Total Place pilots sought to break down barriers between public sector organisations locally - and between localities and Whitehall - to improve the value of the public pound and enhance the experience of customers receiving services. Whilst the present Government has only supported a handful of the recommendations that came out of Total Place, such as Community Budgets, the momentum for improved partnership and collaboration has been sustained in many areas.

Shared service arrangements, for back office services such as IT, internal audit, revenues and benefits, and payroll have had a mixed success in the past, but are now very much back on the agenda. This includes public-to-public shared services, and the outsourcing of support service provision to private sector partners.

There are some high profile examples of the planned merger of front line service delivery (such as the Tri-Borough partnership of Hammersmith and Fulham, Westminster, and Kensington and Chelsea) and even full scale "constitutional" mergers (such as that being progressed by Babergh and Mid Suffolk District Councils). Even more radically, the wholesale outsourcing of services has been considered by authorities such as Essex and Suffolk County Councils.

Whilst there have been successes in terms of quantifiable improvements in efficiency and / or outcomes, there have also been some less successful partnerships. Common difficulties include a failure to realise savings and other benefits from the partnership business case or significant overspends on major projects where the public sector has partnered with the private sector.

In summary, partnership working is not an end in itself but, when done well, makes a positive contribution to capacity and improves performance, value for money, and the quality of services provided to customers.

## What should Audit Committees be doing?

Partnership governance forms part of the complex governance arrangements of large, multifunctional public sector bodies, and historically there has been room for improvement. For example, the former Use of Resources assessments (carried out by external auditors of local authorities and NHS bodies) often cited underdeveloped partnership governance arrangements as a reason for not awarding higher scores.

The diversification of public service delivery, as set out in the Government's *Open Services White Paper*, is likely to see a proliferation of smaller and less experienced public service providers with more SMEs, charities and social enterprises entering the market alongside larger private sector providers. The White Paper also acknowledges that the risk of failure among providers of public services is likely to increase, as minimum standards and expectations required of providers increase, for example, by the use of outcome based contracts and payment by results. The recent collapse of Southern Cross, and its impact on 31,000 care home residents, has brought this challenge to wider public attention.

As partnerships bring risks as well as opportunities, public sector bodies must ensure they have robust corporate governance arrangements in place, and that there is clear accountability between partners. Audit Committees need to be clear about what assurances they need; which could include:

- A clear understanding of who the organisation's significant partners are
- appropriate appraisal processes are in place to ensure that detailed partnership business cases are developed and scrutinised effectively
- a clear understanding of the anticipated outcomes, savings, and other benefits from the partnership – how it adds value - in a document that has been signed off by all partners
- a realistic assessment of the risks and potential conflicts, and agreement on how they will be managed
- an appropriate performance management framework to monitor delivery, providing accurate and timely management information for transparent and informed decisions
- clear contractual arrangements, for example, setting out how risks and rewards are to be shared between partners
- all legal and statutory requirements have been fully complied with
- all ethical standards have been complied with, such as registration and declaration of partners' interests
- there is strong client side experience, with clear ownership and oversight of delivery, including effective contract and project management arrangements
- there is a properly constituted partnership board with effective and clear leadership
- contingency plans to ensure continuity of service in the event that something goes wrong

Partnership governance should be high on the agenda of Audit Committees and they will need to determine how these assurances are provided. For example, this could be a requirement for separate risk registers to be maintained for each significant partnership, or the establishment of a member sub-group to monitor partnership arrangements, particularly during the set up and early operational stages. Annual Governance Statements should explicitly record the governance framework and assurances received in respect of significant partnerships.

As we move into an era where more and more services are likely to be delivered with or by third party organisations, it will be essential that Audit Committees seek the same assurances - and gain at least the same level of confidence on factors such as service quality and continuity, value for money and probity - as they would do if the service was being fully delivered in-house.

Ultimately, public sector bodies remain accountable for the use of taxpayers' money, regardless of who provides a service on their behalf. It is therefore the responsibility of public sector bodies, supported by their Audit Committees, for ensuring the success of partnership working, in whatever form it takes.

## Developments you may need to know about

### **Better Governance Forum commentary on the CIPFA audit committee survey**

In the last issue we featured highlights from the recent survey on audit committees in local government. A more comprehensive report and commentary is now available from the website. The survey will be a useful resource for those wishing to evaluate the make up, terms of reference and effectiveness of their committee. [Commentary](#)

### **Local Government Measure (Wales)**

This measure now has royal assent. The measure requires all Welsh local authorities to establish an audit committee with at least one lay member. The required responsibilities of the committee include:

- To review and scrutinise the authority's financial affairs,
- Make reports and recommendations in relation to the authority's financial affairs,
- Review and assess the risk management, internal control and corporate governance arrangements of the authority,
- Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements,
- Oversee the authority's internal and external audit arrangements, and
- Review the financial statements prepared by the authority.
- Such other functions as the authority considers suitable.

It is understood that a commencement order will be issued in April 2012.

Details of the measure are available on the assembly website <http://www.assemblywales.org/bus-home/bus-legislation/bus-leg-measures/business-legislation-measures-localgov.htm>

### **Local Audit in England**

The government has requested the Audit Commission to outsource all local public audits currently carried out by the Audit Commission's audit practice. The contracts should be in place by September 2012. Further details of the timetable are available from the Audit Commission [website](#).

This development means that local authorities will not be appointing their own external auditors just yet. The government's consultation has now closed but it is not yet known when the government will publish its bill.

### **The Communities and Local Government Select committee report on local audit**

The select committee have published their report following their scrutiny of the government's proposals. The committee have set out four principles of public audit that they believe should shape future arrangements. The principles are:

- Auditor independence must be strictly maintained;
- Local audit committees must have a majority of independent members;
- Additional safeguards are needed to ensure the continued effectiveness of public interest reporting, and
- The scope of local government audit should be proportionate and risk based. It should allow for local innovation and application, particularly with regards to local value for money work.

The report is available on the website, [Select Committee Report](#).

## **Quality of external audit**

The Financial Reporting Council (FRC) publishes their assessment of the quality of major firms of external auditors. The Audit Commission has also published its review of audit quality and published its assessment of the work of its own Audit Practice. This assessment also draws on the assessment carried out by the FRC. You can view the reports relating to your external auditor on the FRC website and Audit Commission website.

[Financial Reporting Council](#)

Audit Quality Review Programme, [Audit Commission](#)

## **Effective scrutiny of treasury management**

A number of audit committees have taken on the role of providing scrutiny of treasury management following the updated CIPFA Code of Practice in treasury management in 2009. The role can also be undertaken by a scrutiny committee or other non-executive body.

The Better Governance Forum and the Treasury Management Network have developed a self-assessment document that committees undertaking scrutiny of treasury management can use. The document has been endorsed by CIPFA's Treasury Management Panel.

The self-assessment will help those undertaking the scrutiny to identify whether they have the support and training necessary to undertake this role and encourages the development of good practice. It is available to download from the Better Governance Forum website. [Assessment of Effective Scrutiny](#).

## **Risk Governance**

A new risk management guidance note has been developed by the Better Governance Forum. It emphasises the importance of the governance arrangements in relation to risk. In particular it considers the role of the Board or Leadership Team in taking responsibility for strategic risks and showing leadership in risk management. The importance of effective challenge as part of the process of identifying and assessing risks is also emphasised. The audit committee is not responsible for the effectiveness of risk management but has a valuable role to play in having oversight of how the organisation manages its risks and also contributing to the challenge process.

The document includes challenge questions to support a review of your own arrangements. It is available on the website. [Risk governance](#).

## **New guidance on Risk Appetite – launched September**

The Institute of Risk Management launched a new guidance document on Risk Appetite and Tolerance in September 2011. The document outlines an approach that is applicable for both public and private sectors. The document includes a number of questions aimed at the boardroom.

The Better Governance Forum will be working with the Institute of Risk Management to encourage the development of the approach in the public sector.

## **Fraud Risk Evaluation Diagnostic (FRED 2)**

In CIPFA's survey of audit committees in local government we asked whether audit committee agendas included an assessment of the fraud risks their organisation faced. Only 41% of councils responded that they did.

The Better Governance Forum has developed a new tool to support organisations with their fraud risk evaluation. The purpose of FRED2 is to enable practitioners such as risk managers, internal auditors, finance managers and counter fraud specialists, obtain an understanding of the susceptibility to fraud & corruption in their organisation. It prompts the use of seven sources for

information to identify areas at risk from fraud. It has been designed to complement the CIPFA Better Governance Forum's Managing the Risk of Fraud (the 'Red Book').

### **Open public services white paper**

In July the government published its white paper. The paper has 5 principles for reforming public services, including '**Ensuring accountability and responsiveness of public services.**' The main approach to improving accountability is by ensuring that information about providers is transparent and accessible and that users and public servants have more choice and discretion in deciding who should deliver them. CIPFA Networks have produced a briefing on the white paper. [CIPFA Networks Briefing](#). A webinar is also available to view.

## The Audit Committee cycle

Agenda items you may be considering during your meetings over the next few months could include the following items.

### **Risk Management**

If your agenda contains strategic risk registers or if you review the effectiveness of the risk management process then you will have the opportunity to consider the governance of risk arrangements and other aspects. Audit Committee Update [issue 4](#) focused on risk management so this is a useful resource for you, together with the [Risk Governance](#) guidance note.

The Risk Advisory Group has also developed a generic list of risks and opportunities associated with organisational change. This may support the audit committee in reviewing their own registers or providing strategic challenge. [Risks and opportunities from organisational change](#).

### **The budget cycle and planning service efficiencies**

Most public sector organisations will be facing another challenging budget cycle and will need to plan for changes to services and find savings to balance the budget. The audit committee role is not to develop the budget or to scrutinise budget proposals. However there may be issues on which the audit committee would wish to have assurance. Key aspects to consider:

- Does the organisation have a strategy for delivering value for money from its services?
- Where savings are proposed is the impact on service clear to the decision makers? Will a budget cut lead to a reduction in service or will efficiency be improved (delivering more for less)?
- Are the risks to good governance from service changes or reductions being identified? Are there any likely consequences for the Annual Governance Statement?

### **Internal Audit – Mid year review**

Committees will typically consider the performance of internal audit half way through the year. Are they on target to achieve the plan? Given the level of change that many public sector organisations are going through it is worth considering the impact on internal audit and the level of assurance that is being delivered.

- Has there been a change to the resources available to internal audit?
- Have new risks and areas for audit been identified? What impact will this have on the plan?
- Do the audit opinions delivered so far show any cause for concern? Are there any common threads indicating wider governance risks within the organisation?

Published by:

**CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY**

3 Robert Street, London WC2N 6RL

[www.cipfa.org.uk](http://www.cipfa.org.uk)

© 2011 CIPFA

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.



Diana Melville  
Governance Advisor  
CIPFA Networks  
7<sup>th</sup> Floor, No 1 Croydon  
12-16 Addiscombe Road  
Croydon  
CR0 0XT  
01722 349398  
[Diana.Melville@cipfa.org.uk](mailto:Diana.Melville@cipfa.org.uk)  
[www.cipfa.org.uk/bgf](http://www.cipfa.org.uk/bgf)



Certificate No.



<b>ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE</b>
--

<b>1.</b>	<b>Meeting:</b>	Audit Committee
<b>2.</b>	<b>Date:</b>	7 December 2011
<b>3.</b>	<b>Title:</b>	Audit Committee Self Assessment
<b>4.</b>	<b>Programme Area:</b>	Financial Services

### 5. Summary

The Audit Committee carries out an annual self-assessment against best current practice for audit committees.

This report refers to the 2011 self-assessment by the Audit Committee of its current arrangements relative to the standards contained in CIPFA document 'A Toolkit for Local Authority Audit Committees'. Other published standards for audit committees have been reviewed and found to be consistent with the expectations of the CIPFA toolkit to the extent that if the Committee can satisfy the CIPFA expectations, it is likely also to be able to comply with broader good practice.

The assessment shows that the Council's Audit Committee substantially applies with current best practice. Only 2 issues are raised for discussion; induction arrangements and assessment of development needs.

### 6. Recommendations

**The Audit Committee is asked:**

- **To confirm the answers provided to questions in the Audit Committee self assessment checklist at Appendix A of this report;**
- **To indicate any further actions required to enable the Committee to further strengthen its arrangements.**

## 7. Proposals and Details

### 7.1 Background

The main guidance on standards for local authority audit committees is the CIPFA publication 'A Toolkit for Local Authority Audit Committees'. The toolkit was produced by CIPFA in late 2006 to build on the guidance contained in the CIPFA document; 'Audit Committees – Practical Guidance for Local Authorities', which was published in 2005. These documents remain the authoritative guidance.

Previous self-assessments have led to the following positive audit committee developments:

- The production of Audit Committee Annual Reports.
- The provision of regular refresher training sessions on topics related to the Committee's terms of reference.
- Provision of more information on the Council's accounts and treasury management to facilitate greater understanding and more effective challenge by the Audit Committee in these areas.
- Improved reporting of internal audit activities and the corporate risk register.
- Reference to the Audit Committee and its activities in the Annual Governance Statement.

The most recent self-assessment against the CIPFA standards was completed by the Audit Committee in December 2010, when the Committee concluded that the Council substantially complied with the CIPFA Guidance. Also in December 2010, the Committee's arrangements were compared against guidance issued in November 2010 by the National Audit Office with, again, most expectations judged to have been met.

Other checklists have been reviewed to consider any other areas for consideration and assessment, including:

- HM Treasury Audit Committee Handbook.
- National Audit Office: *The Audit Committee Self Assessment Checklist*.
- The NHS Audit Committee Handbook.

The expectations of these references are consistent with the CIPFA toolkit to the extent that if the Committee can satisfy the CIPFA expectations it is likely also to be able to comply with broader good practice. For this reason, this report concentrates on a detailed assessment against the CIPFA standard.

### 7.2 Assessment using the CIPFA Toolkit for Local Authority Audit Committees

Notwithstanding the previous positive conclusions, it is appropriate to consider the Committee's current view of its arrangements to ensure the self assessment remains up-to-date.

The following issues were raised last year and are now judged to be fully met (reference numbers in the left hand column below refer to the checklist at App A):

No.	Issue	Comments
1.7	Does the audit committee periodically assess its own effectiveness?	The Audit Committee produces an annual report showing its effectiveness / achievements in the year.
4.1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (now annual governance statement) including the review of the effectiveness of the system of internal audit?	All statutory requirements are met.
4.4	Does the audit committee satisfy itself that the governance arrangements have operated effectively throughout the reporting period?	Assurances are summarised within the Audit Committee report on the Annual Governance Statement for the Committee's attention.
5.2	Does the audit committee consider specifically: <ul style="list-style-type: none"> <li>• The suitability of accounting policies and treatments</li> <li>• Major judgements made</li> <li>• Large write-offs</li> <li>• Changes in accounting treatment</li> <li>• The reasonableness of accounting estimates</li> <li>• The narrative aspects of reporting</li> </ul>	Accounting policies are presented separately to the Committee each year in March for agreement.  Any other salient points are highlighted in the report accompanying the accounts and presented to the Committee
5.6	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	The covering report accompanying the accounts explains the procedures for preparing the accounts.
5.7	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Officers provide updates to the Statement of Recommended Practice as and when these arise. The covering report accompanying the accounts identifies any significant developments. Better Governance Forum briefing papers are presented to the Committee when produced.
6.4	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	Quarterly update reports provide the Director of Audit an opportunity to highlight any significant issues for the Committee's attention as necessary.

The current assessment is attached at **Appendix A**. Issues for the Audit Committee to consider, emerging from the assessment, are:

- *Checklist Ref 2.4 Are new audit committee members provided with an appropriate induction?* The Audit Committee had no new Members in 2011/12.
- *Ref 2.5: Have all members' skills and experiences been assessed and training given for identified gaps?* Provision is available for Members to have PDRs and to identify any specific learning needs that would assist with fulfilling their responsibilities.

**The Audit Committee is asked:**

- **To confirm the answers provided to questions in the Audit Committee self assessment checklist at Appendix A of this report;**
- **To indicate any further actions required to enable the Committee to further strengthen its arrangements.**

## **8. Finance**

There are no direct financial implications arising from this report.

## **9. Risks and Uncertainties**

Rotherham is regarded as having strong audit committee arrangements. In order to maintain its position the Audit Committee should continue to re-consider appropriate arrangements and compare them with best practice.

## **10. Policy and Performance Agenda Implications**

Good governance is wholly related to the Council's priorities.

## **11. Background Papers and Consultation**

'A Toolkit for Local Authority Audit Committees', CIPFA.

'Audit Committees – Practical Guidance for Local Authorities', CIPFA.

'The Audit Committee Self Assessment Checklist'.

### **Contact Names:**

*Colin Earl, Director of Audit and Asset Management x22033.*

*Mark Bicknell, Internal Audit Manager x23297.*

### **Appendix:**

**A 'A Toolkit for Local Authority Audit Committees' – Self Assessment.**

**'A Toolkit for Local Authority Audit Committees' - Self Assessment Checklist: December 2011**

No.	Issue	Yes	No	Comments	Ref to Evidence
<b>1. Role and Remit</b>					
1.1	Does the audit committee have written terms of reference?	√		Terms of Reference reviewed and approved by the Council at its Annual Meeting.	Terms of Reference reviewed and approved annually by the Council at May 2011 meeting.
1.2	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	√		The Terms of Reference comply fully with the requirements of the CIPFA document "Audit Committees – Practical Guidance for Local Authorities", which is regarded as best practice for audit committees.	Terms of Reference reviewed and approved annually by the Council. CIPFA "Audit Committees – Practical Guidance for Local Authorities".
1.3	Are the terms of reference approved by the Council and reviewed periodically?	√		The Terms of Reference are incorporated into the Council's Constitution and are reviewed annually.	Terms of Reference reviewed and approved annually by the Council.
1.4	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	√		The membership level accords with the CIPFA Practical guidance, which refers to HM Treasury's suggestion of 3-5 members. The Terms of Reference and Constitution identify the Committee's authority, and the Committee has relevant officer and other support.	CIPFA "Audit Committees – Practical Guidance for Local Authorities". Terms of Reference, Constitution, Appendix 10.
1.5	Can the audit committee access other committees and full council as necessary?	√		The Committee has full and free access as required to fulfil its responsibilities.	As per Council Constitution.

No.	Issue	Yes	No	Comments	Ref to Evidence
<b>1. Role and Remit</b>					
1.6	Does the authority's statement on internal control include a description of the audit committee's establishment and activities?	√		Reference is made to the Audit Committee in the Annual Governance Statement.	Reference is made to the Audit Committee in Section 3 and its activities in Section 4 of the Annual Governance Statement 2010/11.
1.7	Does the audit committee periodically assess its own effectiveness?	√		The Audit Committee produces an annual report showing its effectiveness / achievements in the year.	2010/11 Annual Report, June 2011.
1.8	Does the audit committee make a formal annual report on its work and performance during the year to full council?	√		The Audit Committee produces an annual report showing its effectiveness / achievements in the year.	2010/11 Annual Report, June 2011.
<b>2. Membership, Induction and Training</b>					
2.1	Has the membership of the audit committee been formally agreed and a quorum set?	√		The membership of the Audit Committee was determined at the Annual Meeting of the Council held in May 2011.	Council Meeting May 2011.
2.2	Is the Chair independent of the executive function?	√		All members of the Committee are independent of the executive function.	Audit Committee members are not Cabinet members.
2.3	Has the audit committee Chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards and the regulatory regime?	√		This is the existing Chair's 5 <sup>th</sup> year as Chair.  The Chair has received training, for example by attending CIPFA IPF Finance Advisory Network events.	Members' Services – PDR Records.

No.	Issue	Yes	No	Comments	Ref to Evidence
<b>2. Membership, Induction and Training</b>					
2.4	Are new audit committee members provided with an appropriate induction?	√		<p>New Audit Committee Members have access to a general induction and specific information relating to the role of Audit Committees and Audit Committee Members.</p> <p>Members can also access any bespoke training through the Members' development review process.</p> <p>Refresher training sessions on key areas relevant to the Committee's terms of reference are being provided from 2012.</p>	Members' Services – PDR Records.
2.5	Have all members' skills and experiences been assessed and training given for identified gaps?	√		<p>Any gaps are identified as part of a Member's Personal Development Plan interviews.</p> <p>Refresher training sessions on key areas relevant to the Committee's terms of reference are being provided from 2012.</p>	Members' Services – PDR Records.
2.6	Has each member declared his or her business interests?	√		Members complete and update the Register of Interests as necessary.	Legal Services – Register of Interests.
2.7	Are members sufficiently independent of the other key committees of the council?	√		Members have sufficient independence to ensure their roles on the Audit Committee are not compromised.	Members have no executive responsibilities.

No.	Issue	Yes	No	Comments	Ref to Evidence
<b>3. Meetings</b>					
3.1	Does the audit committee meet regularly?	√		The Committee has monthly scheduled meetings.	Audit Committee workplan, Audit Committee meeting 1 June 2011.
3.2	Do the terms of reference set out the frequency of meetings?		√	As the frequency of meetings can change, it is not regarded as essential to identify the frequency within the Terms of Reference. The number and frequency of meetings will be identified in the Members' handbook and on the Council's intranet and internet.	Members' handbook; Council's intranet and internet.
3.3	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	√		The Committee's workplan identifies key dates and key reports. Regular meetings enable all business requirements to be met comfortably.	Audit Committee workplan, Audit Committee meeting 1 June 2011.
3.4	Are the members attending meetings on a regular basis and if not, is appropriate action taken?	√		A quorum has always been achieved.	Audit Committee minutes.
3.5	Are the meetings free and open without political influences being displayed?	√		Meetings are open to the Public.	Audit Committee minutes.
3.6	Does the authority's S151 Officer or Deputy attend all meetings?	√		The S151 Officer and / or deputy attend all meetings	Audit Committee minutes.
3.7	Does the audit committee have the benefit of attendance of appropriate Officers at its meetings?	√		Relevant officers present and are available to discuss all reports.	Audit Committee minutes.



No.	Issue	Yes	No	Comments	Ref to Evidence
<b>4. Internal Control</b>					
4.1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (now annual governance statement) including the review of the effectiveness of the system of internal audit?	√		All statutory requirements are met.	Audit Committee June 2011.
4.2	Does the audit committee have responsibility for review and approval of the SIC (now annual governance statement) and does it consider it separately from the accounts?	√		The Annual Governance Statement is considered separately by the Audit Committee.	Audit Committee June 2011.
4.3	Does the Audit Committee consider that the scope of Internal Audit work, the available resources at its disposal, and their access to information and people allow it to address significant risks within the organisation?	√		The Internal Audit Strategy, agreed by the Audit Committee, identifies the relevant arrangements	Audit Committee June 2011.
4.4	Does the audit committee satisfy itself that the governance arrangements have operated effectively throughout the reporting period?	√		Assurances are summarised within the Audit Committee report on the Annual Governance Statement for the Committee's attention.	Audit Committee June 2011.

No.	Issue	Yes	No	Comments	Ref to Evidence
4.5	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	√		The Audit Committee has responsibility for risk management. It has met with the Standards Committee on issues of joint interest. Discussions are currently being held as to how the Audit Committee can work effectively with the Select Commissions and the Overview and Scrutiny Management Board.	Audit Committee minutes.
4.6	Has the audit committee (with delegated responsibility) of the full council adopted "Managing the Risk of Fraud – Actions to counter Fraud and Corruption?"	√		The Audit Committee has approved the Council's strategy for tackling fraud and corruption and has received subsequent updates on progress.	Audit Committee 24 June 2009. An update will be taken to Audit Committee in January 2012.
4.7	Does the audit committee ensure that the "Actions to counter Fraud and Corruption" are being implemented?	√		The anti-fraud and corruption strategy includes an action plan to implement effective arrangements. The Audit Committee has received updates on progress.	Audit Committee 24 June 2009. An update will be taken to Audit Committee in January 2012.
4.8	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	√		The Annual Internal Audit Plan identifies the risk based approach to the preparation of the plan.	Internal Audit Plan, Audit Committee June 2011.
4.9	Does the audit committee review the authority's strategic risk register at least annually?	√		The Audit Committee receives quarterly reports on the corporate risk register and has an opportunity to comment on the risks included and identify any emerging risks.	Audit Committee minutes.
4.10	Does the audit committee monitor how the authority assesses its risk?	√		Regular reports to Members.	Audit Committee meeting, 19 October 2011.

No.	Issue	Yes	No	Comments	Ref to Evidence
4.11	Do the audit committee's terms of reference include oversight of the risk management process?	√		<p>The Terms of Reference state, the Audit Committee should:</p> <p>“Consider the effectiveness of the Council's risk management arrangements and control environment.</p> <p>Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.</p> <p>Review the robustness of risk registers.”</p>	Terms of Reference.
<b>5. Financial Reporting and Regulatory Matters</b>					
5.1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	√		<p>The Committee's Terms of Reference include consideration of:</p> <ul style="list-style-type: none"> <li>- the annual statement of accounts prior to recommending it to the full Council;</li> <li>- the external auditor's report on the audit of the annual financial statements;</li> <li>- whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit.</li> </ul>	Terms of Reference.
5.2	<p>Does the audit committee consider specifically:</p> <ul style="list-style-type: none"> <li>• The suitability of accounting policies and treatments</li> <li>• Major judgements made</li> </ul>	√		<p>Accounting policies are presented separately to the Committee each year in March for agreement.</p> <p>Any other salient points are highlighted in the report accompanying the accounts and presented to the Committee.</p>	<p>Audit Committee March 2011.</p> <p>Audit Committee September 2011.</p>

No.	Issue	Yes	No	Comments	Ref to Evidence
	<ul style="list-style-type: none"> <li>• Large write-offs</li> <li>• Changes in accounting treatment</li> <li>• The reasonableness of accounting estimates</li> <li>• The narrative aspects of reporting</li> </ul>				
5.3	Is a meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	√		The auditor's report is scheduled to be presented to the Audit Committee at its September 2011 meeting.	Audit Committee September 2011.
5.4	Does the audit committee review management's letter of representation?	√		The letter of representation is presented to the Audit Committee when the auditor's report is submitted.	Audit Committee September 2011.
5.5	Does the audit committee annually review the accounting policies of the authority?	√		See extract from the Terms of Reference at 5.1 above.	See 5.1 above.
5.6	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	√		The covering report accompanying the accounts explains the procedures for preparing the accounts.	Audit Committee September 2011.

No.	Issue	Yes	No	Comments	Ref to Evidence
5.7	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	√		Officers provide updates to the Statement of Recommended Practice as and when these arise.  The covering report accompanying the accounts identifies any significant developments.  Six-monthly summaries of current publications are produced.	Audit Committee March 2011.  Audit Committee September 2011.
<b>6. Internal Audit</b>					
6.1	Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	√		The Committee's Terms of Reference state the Committee's objectives include:  'To approve (but not direct) the Internal Audit Manager's proposed strategy plan'  and  'ensure that this gives an adequate level of assurance over the Council's main risks'.	Terms of Reference.
6.2	Does internal audit have an appropriate reporting line to the audit committee?	√		The Director of Internal Audit and Governance attends all meetings and is able to report direct to the Committee.	Audit Committee Terms of Reference.
6.3	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal	√		Quarterly internal audit progress reports are presented to the Committee.  An annual report is also produced in	Audit Committee minutes.

No.	Issue	Yes	No	Comments	Ref to Evidence
	Audit?			advance of the annual governance statement.	
6.4	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	√		Quarterly update reports provide the Director of Internal Audit and Governance an opportunity to highlight any significant issues for the Committee's attention as necessary.	Audit Committee minutes.
6.5	Does the audit committee hold periodic private discussions with the head of internal audit?	√		The Committee has provision to hold private discussions.	Terms of Reference.
<b>6. Internal Audit</b>					
6.6	Is there appropriate cooperation between the internal and external auditors?	√		Internal and External audit meet regularly during the year to discuss the respective plans and progress against these.  Internal and External Audit work closely to maximise the benefit derived from the total audit resource.	Managed Audit Approach.
6.7	Does the audit committee review the adequacy of internal audit staffing and other resources?	√		The Internal Audit Plan balances resources and needs. There is provision for the Director of Internal Audit and Governance to raise any resource issues with the Strategic Director of Resources.	Internal Audit Plan, Audit Committee June 2011.

No.	Issue	Yes	No	Comments	Ref to Evidence
6.8	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom?	√		A review of Internal Audit's compliance with the CIPFA code completed in 2010 by KPMG confirmed Internal Audit's compliance with the standards. The review was reported to the Audit Committee.	Audit Committee October 2010.
6.9	Are internal audit performance measures monitored by the audit committee?	√		Quarterly progress reports identify performance against key PIs.	Audit Committee minutes.
6.10	Has the audit committee considered the information it wishes to receive from internal audit?	√		The Committee has noted its satisfaction with the level of information included in the progress reports.	Audit Committee minutes.
<b>7. External Audit</b>					
7.1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?	√		External audit plans are presented to the Audit Committee.	Audit Committee, July 2011.
7.2	Does the audit committee hold periodic private discussions with the external auditor?	√		The Committee has provision to hold private discussions.	Terms of Reference.
7.3	Does the audit committee review the external auditor's annual report to those charged with governance?	√		The report is presented following the annual accounts audit.	Audit Committee, September 2011.

No.	Issue	Yes	No	Comments	Ref to Evidence
7.4	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	√		Quarterly reports on progress in implementing External Audit recommendations are presented to the Audit Committee.	Audit Committee minutes.
7.5	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?	√		All External Audit reports are presented to the Audit Committee.	Audit Committee minutes.
7.6	Does the audit committee assess the performance of external audit?	√		The Committee receives regular progress reports from the External Auditor. The Committee also reviews the annual report of the External Auditor at the completion of the audit.	External Auditor's ISA 260 Report. Audit Committee, September 2011.
7.7	Does the audit committee consider and approve the external audit fee?	√		The Audit Committee receives and approves the External Audit Plan including the fee proposals.	Audit Committee, July 2011.
<b>8. Administration – Agenda Management</b>					
8.1	Does the audit committee have a designated secretary from Committee / Member Services?	√		Debbie Bacon is the Members' support officer for the Audit Committee.	Audit Committee minutes.
8.2	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	√		Papers are circulated one week before the meetings.	Papers are circulated one week before the meetings.



No.	Issue	Yes	No	Comments	Ref to Evidence
8.3	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	√		The Committee has an annual workplan.	Audit Committee Workplan, Audit Committee meeting, 1 June 2011.
8.4	Are inputs for Any Other Business formally requested in advance from committee members, relevant offices, internal and external audit?	√		Audit Committee members are invited to raise AOB with the Chair in advance of the meeting when the Agenda Papers are circulated. There is further opportunity for AOB to be raised during the meeting.	Agenda Papers and Audit Committee Minutes.
<b>9. Administration - Papers</b>					
9.1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	√		All criteria are satisfactorily met.	Audit Committee minutes, and the accompanying reports.
9.2	Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?	√		A standard pro-forma is used for all reports.	Audit Committee minutes, and the accompanying reports.
<b>10. Administration – Actions Arising</b>					
10.1	Are minutes prepared and circulated promptly to the appropriate people?	√		These criteria are met.	Audit Committee minutes.
10.2	Is a report on matters arising made and minuted at the audit committee's next meeting?	√		These criteria are met.	Audit Committee minutes.

No.	Issue	Yes	No	Comments	Ref to Evidence
<b>10. Administration – Actions Arising</b>					
10.3	Do action points indicate who is to perform what and by when?	√		Action points identify the relevant details where possible.	Audit Committee minutes.