

**AUDIT COMMITTEE  
22nd July, 2015**

Present:- Councillor Wyatt (in the Chair); Councillors Alam, Evans and Hughes.

Tim Cutler and Debra Cunningham, KPMG were also in attendance.

An apology for absence was received from Councillor Cowles.

**C1. QUESTIONS FROM THE PRESS AND PUBLIC**

A member of the public stated that the Council had been criticised for not being able to demonstrate that it had used all its resources economically and effectively and asked if all the new Plans had been resilience tested and benchmarked? Had the interface and interdependency been built into the resilience test and cost of the Children and Young People's Services Plan? Had it fed through into financial planning?

The Chairman stated that it was not the Committee's role to manage risk but to be reassured that it was being managed. The risk work in the past had not been as robust as it should have been – that had been identified in the Improvement Plan and other reports – and it was the Audit Committee's task to reassure the Government appointed Commissioners and the Civil Services that that had changed.

A complete refresh of the risk management arrangements was underway ensuring that they met the requirements of the Authority. The new Policy and Strategy was to be considered by the Strategic Leadership Team shortly and would include the requirement of the Advisory Cabinet Member and respective Strategic Director to attend the Audit Committee and report on how they managed risk. The Committee would be able to test out that risk management was being applied in practice.

**C2. MINUTES OF THE PREVIOUS MEETING HELD ON 5TH MAY, 2015**

The minutes of the previous meeting of the Audit Committee held on 5<sup>th</sup> May, 2015, were noted.

**C3. CORPORATE AND CHILDREN AND YOUNG PEOPLE'S SERVICE IMPROVEMENT PLANS GOVERNANCE ARRANGEMENTS**

Sue Wilson (CYPS Improvement Plan) and Justin Homer ("A Fresh Start" Rotherham Improvement Plan) reported on the arrangements that had been put into place in respect of the governance of the Improvement Plans for both the Council-wide (the Corporate Improvement Plan) and Children and Young People's Services (CYPS).

## AUDIT COMMITTEE - 22/07/15

The governance of the CYPS Plan was through the Children's Improvement Board, Chaired by the Children's Commissioner, and attended by the Directors of Children's Services and key partners which included Health and the Police.

Evidencing improvements on a weekly and monthly basis was used to determine impact and improved outcomes. The evidence presented to the Board was quantitative as well as qualitative and was critically assessed and challenged to ensure that it was robustly implemented. In addition, an evidence bank was in place for the Plan to capture outcomes which demonstrated the impact on each area identified.

The Corporate Improvement Plan ("A Fresh Start") was approved at the 22<sup>nd</sup> May Council meeting and submitted to the Secretaries of State for Communities and Local Government (DCLG) and Education (DfE) on 26<sup>th</sup> May.

The Plan set out its headline governance arrangements primarily through a "Joint Board" of Commissioners and leading Elected Members (representing the Majority and Opposition Groups) supported by an officer Corporate Improvement Plan Group linked to the Strategic Leadership Team. The Joint Board would hold its first meeting on 28<sup>th</sup> July.

Discussion ensued on the Improvement Plans with the following issues raised/clarified:-

- Need for stability in the CYPS Senior and Middle Management Team in order to move forward
- Need to ensure the Audit Committee's work plan linked with and referenced in the Improvement Plans when they were submitted to the Secretaries of State
- Once work was complete, as part of the CYPS Quality Assurance Framework, project officers would be requested to submit evidence for quality assurance testing before sign off
- As part of Ofsted's Improvement Offer there would be bi-monthly improvement visits
- An action within the "Fresh Start" was to re-establish the Equalities function of the Council as well as the formal reporting template including an Equalities section that had to be completed when submitting a report
- CYPS held weekly performance meetings, Chaired by the Interim Strategic Director, around Safeguarding and Looked After Children
- There was also work ensuring the Voice of the Child was heard

- Overall accountability for delivery of the CYPS Plan sat with the Interim Strategic Director but each of the Service Directors were accountable for their own individual theme

Resolved:- That the governance arrangements currently in place for each of the Council's formal Improvement Plans be noted.

#### **C4. AUDIT COMMITTEE WORK PLAN 2015/16**

Colin Earl, Assistant Director of Audit, ICT and Procurement, presented the draft 2015/16 work plan.

The plan had been updated to take into account current significant issues relating to the Committee's Terms of Reference, recognising the "Fresh Start" being adopted by the whole of the Council and, therefore, provided a fresh approach for the Committee which would be reflected in an Audit Committee Prospectus currently being drafted.

The work plan showed activity under the 3 main functions of the Audit Committee i.e. Accounts Matters, Audit/Control Matters and Risk Management/Other Matters. The Audit Committee Prospectus would set out Audit Committee standards, the scope of its work and how it would seek the assurances about the management of risks across the Council.

The new arrangements would also include:-

- Regular briefing/training sessions on topical subjects prior to each meeting
- Recruitment of an independent member to augment the skills and experience currently provided by the Audit Committee
- Regular detailed reviews of Directorate risk registers including the involvement of Cabinet Members (Advisory) in managing/reviewing the risks
- Setting aside 1 full meeting in January 2016 for a self-assessment exercise
- A reflection at the end of each meeting on any matters arising during the meeting that should be mentioned/referred to the Overview and Scrutiny Management Board to take into account in its work planning

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

Discussion ensued with the following issues raised/clarified:-

- The Committee's Terms of Reference had not been amended since May, 2014 – given all the changes that had taken place they should be revised

## AUDIT COMMITTEE - 22/07/15

- The Audit Committee was an important tool to ensure the Council was following the proper rules and procedures as well as management of risk
- The Prospectus would set out the fresh start for the Committee and reiterated the standards that it would be looking to work to and based on CIPFA standards. It would identify the key activities for the municipal year and how the Committee intended to work with Scrutiny and the Advisory Cabinet in the future
- The advert for the Independent Member had been issued
- The Prospectus was to be submitted to the Government in August

Resolved:- (1) That the development of the Audit Committee's role and approach be noted.

(2) That the 2015/16 work plan for the Audit Committee be approved.

(3) That the drafting of the Audit Committee Prospectus outlining the new approach be noted.

(4) That the Prospectus and Terms of Reference be submitted to the next meeting.

(5) That the respective Advisory Cabinet Member and Strategic Director be invited as follows to present their Directorate Risk Register:-

23 <sup>rd</sup> September, 2015	Children and Young People's Services
24 <sup>th</sup> November	Finance and Corporate Services
20 <sup>th</sup> January, 2016	Adult Social Care
10 <sup>th</sup> February	Economic and Development Services and Public Health
27 <sup>th</sup> April	Assistant Chief Executive

(6) That key partners be invited to the Audit Committee on an annual basis to discuss joint risks/shared interests/concerns.

### **C5. INTERNAL AUDIT PROGRESS REPORT 2015/16 QUARTER ONE**

Consideration was given to a report presented by Marc Bicknell, Chief Auditor, which provided a summary of Internal Audit work and performance for the 3 months ending 30th June, 2015.

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

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

Summary conclusions in all significant audit work concluded during the first 3 months of the 2015/16 financial year were set out in Appendix A of the report submitted together with the audits that were at draft report stage.

5 areas had been concluded as 'inadequate':-

- EDS – Taxi Licensing
- EDS – Voluntary Organisation Grant Claim
- EDS – Integrated Housing Management System
- Resources – Records Management
- CYPS – Abbey School

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

Achievement in relation to the percentage of Audit Plan completed was below target but this was not unusual at quarter 1. Additional interim resources were being utilised to help with delivery of the Plan which would improve overall performance.

Discussion ensued with the following issues raised/clarified:-

- The focus on taxi licensing had included operators, taxi and vehicle licences due to the issues referenced in the Jay and Casey reports
- Each Internal Audit report issued to Directors and Managers set out in the action plan how they should implement each recommendation, who was responsible, timescale and how it would be actioned. Once the action plan was agreed Internal Audit would follow it up 2 months later

## AUDIT COMMITTEE - 22/07/15

- Updates on Performance Indicators would be submitted to each Audit Committee meeting
- Work would take place with CYPS due to the elements of commonality between the Internal Audit workplan and CYPS quality assurance

Resolved:- (1) That the performance of the Internal Audit Service during the period ending 30<sup>th</sup> June, 2015, be noted.

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

### **C6. HERITABLE BANK PLC (IN ADMINISTRATION)**

Derek Gaffney, Chief Accountant, submitted an update on the recovery of the Council's investment in Heritable Bank plc. which had collapsed in early October, 2008.

Ernst & Young LLP, Administrators for Heritable Bank plc, had issued progress reports and declared interim dividends to the Creditors of the Bank which included the Council. The Administrators had now confirmed the estimated recovery would be between 98 and 100 pence.

Between July, 2009 and August, 2013, 14 interim dividends had been paid amounting to approximately £1.696M or 94.22 pence in the pound based on the original amount invested. Notice had been received of a 15<sup>th</sup> interim dividend, the exact amount unknown at the present time but hoped would be declared and paid in August, 2015.

It was hoped that the final amount recovered would be at the higher end of the range and recovery at a level above 99% had been assumed in closing the Council's 2014/15 statutory accounts.

Resolved:- That the current position with regard to the recovery of the Council's investment in Heritable Bank plc be noted.

### **C7. ANNUAL TREASURY MANAGEMENT REPORT AND ACTUAL PRUDENTIAL INDICATORS 2014/15**

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which detailed how the Council received an annual Treasury Strategy in advance of the 2014/15 financial year and also a mid-year review of treasury activity.

The annual treasury management report was the final treasury report for 2014/15. Its purpose was to review the treasury activity for 2014/15 against the Strategy agreed at the start of the year.

The report also covered the actual Prudential Indicators for 2014/15 in accordance with the requirements of the Prudential Code.

Presentation of the report met the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Council was required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Further information was provided on the main reasons for change in the actual indicators from those originally set in March, 2014 and the level of the Council's external debt and investments.

Resolved:- That the Annual Treasury Management Report be approved.

**C8. 2014/15 UNAUDITED STATEMENT OF ACCOUNTS**

Consideration was given to a report presented by Simon Tompkins, Finance Manager, which set out the main changes to the Statement of Accounts in 2014/15.

This report summarised the key disclosures contained in the unaudited 2014/15 Statement of Accounts published on 29th June, 2015 to give an opportunity to consider them before formal approval at the meeting on 23rd September, 2015.

The statutory deadline for the audited Statement of Accounts to be published was 30th September, 2015.

The recent changes made to the coding structure of the Chart of the Accounts, greater use made of standard templates to collect information required for the Statement of Accounts, semi-automation of the production of figures for the accounts directly from the ledger and systems development had all contributed to a more efficient year end. Revised Accounts and Audit Regulations, issued in 2015, introduced a new requirement for the accounts to be closed down faster. With effect from 2017/18, the unaudited Statement of Accounts would need to be published by the end of May (a month earlier than at present) and the audited Statement of Accounts by 31<sup>st</sup> July (2 months earlier than at present).

Resolved:- That the unaudited 2014/15 Statement of Accounts be received and the compliance with the statutory requirement that they be published no later than 30<sup>th</sup> June, 2015 be noted.

**C9. DRAFT ANNUAL GOVERNANCE STATEMENT 2014/15**

Consideration was given to a report presented by Colin Earl, Assistant Director, Audit, ICT and Procurement, which outlined the Council's view of the application of good governance standards in Rotherham MBC.

The Statement reflected the outcomes from the Jay, Ofsted and Casey inspections and the subsequent Government Directions including the appointment of the 5 Commissioners on 26<sup>th</sup> February, 2015.

It showed how the Council, led by the Commissioners, had begun to respond to the weaknesses through the development of both a Children's Improvement Plan and a Corporate Improvement Plan. Progress on the Children's Improvement Plan was monitored by the Children and Young People's Improvement Board and was reported to the Department for Education. The first progress report on the Corporate Improvement Plan would be submitted to the Department for Communities and Local Government by 26<sup>th</sup> August, 2015.

Positive progress was being made on both Plans although there remained a substantial amount of work to be done.

Recommended practice required the Leader of the Council and the Chief Executive (the Managing Director in Rotherham's case) to sign the Annual Governance Statement prior to its publication.

Resolved:- (1) That the 2014/15 draft Annual Governance Statement be approved.

(2) That the requirement for the Leader and Managing Director to sign the Statement prior to the publication of the Annual Governance Statement in September, 2015, be noted.

(3) That any significant changes made following the agreement of the draft Statement would be submitted to the Commissioners, Advisory Cabinet, Strategic Leadership Team and the Audit Committee prior to the signing of the final Annual Governance Statement.

**C10. KPMG'S 2014/15 EXTERNAL AUDIT PLAN**

Further to Minute No. 30 of 18<sup>th</sup> February, 2015, consideration was given to a report presented by Tim Cutler, KPMG, setting out the Value for Money risks identified by KPMG and the scope of the work planned in relation thereto.

The original Plan submitted to the February meeting had set out the audit risks, work and approach to be undertaken in relation to the Financial Statements audit but had not contained any details relating to the Value for Money audit as the outcomes from the Corporate Governance inspections had still to be published at that time. Following the publication of the Corporate Governance inspection, KPMG had now had an opportunity to evaluate the findings and how it impacted upon their 2014/15 Value for Money audit. This was reflected in the updated Plan.

The key audit risks on which KPMG would focus during their audit remained as previously stated i.e.:-



- Child Sexual Exploitation claims
- Accounting for school assets used by local authority maintained schools
- Digital Region closure costs
- The Council's new banking arrangements

The planned audit fee contained in the original Plan of £186,300 remained the same in the updated Plan and was in line with expectations based on the Audit Commission's published work programme and scales of fees. It was based on KPMG's assessment of the level of risk.

Resolved:- That KPMG's External Audit Plan 2014/15, as updated, be approved noting the proposed areas to be covered by the Value for Money audit.

**C11. ITEMS FOR REFERRAL FOR SCRUTINY**

Audit Committee Work Plan 2015/16  
Awareness Sessions  
Annual Governance Statement 2014/15  
Development of the Audit Committee Prospectus and increased focus on risk management

**C12. EXCLUSION OF THE PRESS AND PUBLIC**

Resolved:- That, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 2 and 3 of Part I of Schedule 12A to the Local Government Act 1972 (information likely to reveal the identity of an individual/relating to the financial or business affairs of any person (including the Council)).

**C13. INTERNAL AUDIT PROGRESS REPORT**

Marc Bicknell, Chief Internal Auditor, gave a verbal update on the work that had taken place during the first 3 months of the 2015/15 Municipal Year and the findings of Internal Audit.

Resolved:- (1) That consideration be given to the inclusion of the Integrated Housing Management System on the Risk Register and work plan.

(2) That an update be given to the next meeting on Records Management.