

**AUDIT COMMITTEE**  
**Wednesday, 10th February, 2016**

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

Debra Chamberlain (KPMG) was in attendance.

Councillor D. Roche was in attendance for the Adult Services Risk Register and the Public Health Risk Register items.

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

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

**47. COUNCILLOR S. ELLIS.**

Councillor K. Wyatt welcomed Councillor S. Ellis to her first meeting of the Audit Committee. She had recently joined the Committee to replace Councillor S. Alam.

**48. MINUTES OF THE PREVIOUS MEETING HELD ON 24TH NOVEMBER, 2015**

Consideration was given to the minutes of the meeting held on 24<sup>th</sup> November, 2015.

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

**49. RISK BASED VERIFICATION AND ELECTRONIC CLAIMS POLICIES**

Rachel O'Neill, Customer and Cultural Services, submitted a report proposing the adoption of a Risk Based Verification Policy and Electronic Communications Policy which would allow the Council to streamline the administration of Housing Benefit and Council Tax Reduction claims. Customers would be encouraged to submit their applications for Housing Benefit and Council Tax Reduction electronically.

The Department for Works and Pensions had piloted Risk Based Verification with a small number of local authorities in 2011. The scheme's approach concentrated on the risk profile of each claims, enabling Council resources to be targeted at high risk claims where there was more likelihood of fraud and error and enabling low risk claims to be streamlined and fast tracked. The pilots were successful and in November, 2011, the DWP confirmed that all councils were able to adopt Risk Based Verification on a voluntary basis. It was now used in many areas of public serve as well as by businesses in the commercial world sector.

The Authority's current process for requesting and verifying evidence had been in place for some time and required every customer to submit the same amount of evidence irrespective of their circumstances. This was costly, inefficient and burdensome on the customer and could result in delays in receipt of benefit.

Changing the verification policy, supported by electronic submission of new benefit claims and changes in circumstances, would help to streamline the processes, improve accessibility, reduce the cost of administering claims and help target fraud and error.

The DWP required any council wishing to adopt risk based verification and electronic claims processes to have local formally approved policies in place.

A specialist IT system would be purchased to support the implementation of risk based verification which would be integrated with an electronic claim form and the Authority's existing benefit assessment systems. The estimated cost of the ICT system was £25,000 per annum. Funding for the project had been identified within the approved Customer Access Delivery Plan 2015/16 and would be met from available DWP Welfare Reform and New Burdens grant monies in year 1. Revenue costs from 2017/18 would be funded from Library and Customer Services revenue budgets.

An online benefit claim form had been developed and fully tested with customers. The form would enable evidence to be uploaded online removing the need for the claimant to visit Council premises. 'Assisted digital' processes would also be introduced for those customers who were unable to access online services. The online process would still be followed in those cases but would be completed on the customer's behalf by a Council representative or partner either by telephone or face-to-face visit.

Discussion followed on the proposed system: -

- Bernard Coleman asked what level of monitoring was undertaken on the low risk applications, which represented the majority of applications? – Officers could not downgrade a risk and internal quality assurance within the Team was ongoing, a minimum 10% sample each year. An annual external audit was undertaken. The tool was well-tested and used by DWP.
- Councillor Hughes asked whether any electronic transactions were currently used? None – currently all were paper based. It was anticipated that 55% low-risk customers would use the on-line tool.
- Councillor Ellis referred to the purchase of IT solutions and asked whether there was available and sufficiently tested bespoke

software on the market? Soft market testing had been undertaken and identified three key suppliers who could provide what was needed. The policy would be adopted before any tender was issued.

- Councillor Ellis asked what safeguarding would be in place to ensure that vulnerable clients would be supported to use the online tool and not feel forced into it? There were no differences between online and paper based methods in terms of questions or requirements. The Council needed to be clear that it had given applicants all relevant information. Where applicants had been helped to fill in the online questions there was the option to give the individual full copies of the information submitted. There was a tick box to indicate when the form had been filled in on an applicant's behalf.
- Councillor Hughes asked how many applications were annually processed? There was an overall caseload of 28,000 applications and in the previous year new applications amounted to just under 6,000. This was dependent on factors in the Borough and the local economy. The annual caseload was between 25,000-35,000 individuals, to the value of £90m.

Resolved:- (1) That the adoption of the Risk Based Verification Policy and Electronic Claims Policy be supported.

(2) That the report be referred to the Cabinet and Commissioners decision making meeting for adoption.

(3) That a six-month review of this process be considered by a future meeting of the Audit Committee, including an exceptions report.

#### **50. PROGRESS ON RECOMMENDATIONS/ISSUES RAISED IN THE ANNUAL GOVERNANCE STATEMENT 2014-15**

Colin Earl, Director of Finance and Corporate Services, presented a report providing an update on the progress of addressing the weaknesses reported in the 2014/15 Annual Governance Statement (AGS).

The 2014/15 AGS had reflected the exceptional circumstances applying to the Council during the year. The actions emanating from the Jay, Casey and Ofsted reports were included in the Corporate and Children's Improvement Plans progress of which would be reported respectively to the Joint and Children's Improvement Boards and would be summarised in the 2015/16 AGS.

The AGS had also included other significant issues arising from the annual assessment of governance arrangements. The Audit Committee's Prospectus included a review of progress in implementing the issues prior to the process for producing the 2015/16 AGS. The issues/updates were

as follows:-

- A failure to effectively commission and manage the delivery of school improvement activity  
Funds were now formally devolved to schools in line with delegated budget arrangements and schools determined the extent to which they wished to buy-in improvement support, the processes for doing so and the demonstration of value for money. These arrangements should ensure compliance with procurement and Financial Regulations in subsequent financial years.

- Inadequate arrangements for taxi licensing  
The assessment of all existing licence holders against the 'fit and proper' person was virtually complete. As a consequence, a number of taxi drivers had had their licences revoked.

The new Safeguarding Policy covering Hackney Carriages and Private Hire vehicles had also been implemented with over 85% of drivers now having received safeguarding training.

- Inadequate arrangements for minimising the risk of harm to Looked After Children when transport arranged outside of the Council's Home to School Transport contracts was used.  
New protocol in place to direct CYPS to a single operator that held the biggest number of Home to School transport routes and had the greatest experience of special needs children.

Task and Finish Group had been established to look further at transport provision for Looked After Children and determine further actions/measures to be taken.

- Weaknesses in arrangements for ensuring contractors were effectively and consistently assuring the safety of tenants when carrying out gas servicing works on behalf of the Council.  
The Council's Gas Supervisor now more directly monitored projects involving gas installations to ensure appropriate assurance checks were undertaken. The Council had also appointed an independent gas auditor and implemented his recommendations.

The Gas Supervisor had also undertaken practical steps including meeting contractors on site and attended 'tool-box' talks to emphasise the Council's priority in relation to safety and minimise the risk of incidences occurring.

There had been no RIDDOR reportable incidents since the enhanced arrangements.

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

(2) That, following the conclusion of the Task and Finish Group relating to

Looked After Childrens' Transport provision, a report be presented to a future meeting of the Audit Committee.

## 51. EXTERNAL AUDIT GRANTS REPORT

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, and Debra Chamberlain, KPMG, which advised the Audit Committee of the matters arising from the external audit of the Council's 2014/15 government grants and returns.

The report provided a summary of KPMG's key findings from the certification work they have carried out in 2014/15.

The main findings were:-

- KPMG were required to audit three claims and returns in 2014/15 with an aggregate value of £112 million and issued a qualification certificate for one return and unqualified certificates for the remaining two grants and returns.

The Housing Benefit Subsidy claim was subject to a qualification letter and unqualified conclusion for the Teachers' Pension Agency Return and Pooling of Housing Capital Receipts Return. No adjustments were necessary to the Council's grants and returns as a result of the certification work.

KPMG have commented that this grant was a very complex and high value grant and the relatively low number and value of amendments/qualification issues represented good performance at preparing this grant claim relative to other local authorities.

- The Council had good arrangements in place to ensure the efficient and effective preparation and submission of claims and returns and which supported the audit process. In particular, working papers were of a good standard and officers responded promptly to audit queries.

KPMG recognised that the Council continued to maintain the high standard achieved in recent years and had good arrangements in place to ensure the efficient and effective preparation and submission of claims and returns which supported the audit process. In particular, working papers were of a good standard and officers responded promptly to audit queries.

The indicative fee for KPMG's work on the Council's 2014/15 Housing Benefit Subsidy was set by Public Sector Audit Appointments at £16,120. The actual fee for the work was £20,663 due to additional time incurred to re-perform CAKE testing. The additional fee was subject to Public Sector Audit Appointments' approval.

Councillor Ellis asked about incorrect classification of vulnerable claimants as per section 3.2.5? None of the claimants had suffered any financial loss.

Resolved:- (1) That the External Auditor's report be noted.

(2) That, whilst the fees had increased for carrying out grant certification work due to additional testing requirements, the Council had sustained good performance in both preparing and submitting its 2014/15 grant claims and returns.

## **52. FINAL ACCOUNTS CLOSEDOWN ARRANGEMENTS AND REVIEW OF ACCOUNTING POLICIES**

Simon Tompkins, Finance Manager, reported that under the Accounts and Audit Regulations 2015, with effect from 2017/18, unaudited financial statements would have to be published by the end of May and audited financial statements by the end of July as opposed to the current arrangements of June and September respectively. The challenge for local authorities would, therefore, be to achieve the shorter reporting timetable whilst maintaining financial statements of good quality.

The new deadlines represented a major challenge for all local authorities and would necessitate adoption of radically different approaches if the tighter deadlines were to be achieved. It would entail having to re-engineer processes to:-

- Better align in year and end of year reporting processes
- Bring forward work wherever possible
- Place greater reliance on the use of estimates
- Automate or streamline processes wherever possible

The various workstreams would be brought together and project managed over the next two years using the closure of the accounts in 2015/16 and 2016/17 as trials.

Steps being taken this year included:

- Identifying barriers to faster closure so that solutions can be found in 2016/17, and
- Removing non material disclosure from the financial statements

KPMG's views would be sought to get their assurance that the new processes and techniques being developed are satisfactory from an external audit perspective.

Officers would also look to work collaboratively with other Finance colleagues across South Yorkshire to share best practice and resources.

The Local Audit and Accountability Act 2014 conferred on local electors the right to inspect the accounting records, books, deeds, vouchers, contracts, bills and other documentation relating to the financial year in question. It also gave them the right to question the auditor about the accounting records or make a formal objection on a matter of public interest or because they thought an item of account may be unlawful. Previously, local electors were given at least twenty working days to inspect the accounting records up to the date appointment by the external auditor from which questions or objections could be made. Under the Accounts and Audit Regulations 2015, this was now thirty working days commencing the day after the unaudited accounts had been published. As accountability to the local electorate was an important part of the governance of the Council, notice of the inspection period would be advertised on the Council's website in advance of the unaudited financial statements being published.

The draft Annual Governance Statement and Narrative Report would also need to be published alongside the Council's unaudited financial statements on the website.

In view of the changes to the 2015/16 financial statements, Audit Committee agreed that, in order to maintain strong governance over financial reporting, it would receive the unaudited Financial Statements for information after they had been authorised and release for publication.

Resolved:- (1) That the key accounting issues and main changes to the accounts in 2015/16, as listed in Appendix A of the report submitted, be noted.

(2) That the change to the Council's accounting policies that had been made as a result of changes to the Local Authority Accounting Framework, as set out in Appendix B of the report submitted, be noted.

(3) That the July meeting of the Audit Committee receive the Council's unaudited 2015/16 financial statements.

### **53. KPMG EXTERNAL AUDIT PLAN 2015-16**

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, and Debra Chamberlain, KPMG, describing the KPMG External Audit Plan (included as an appendix to the submitted report) which set out the proposed external audit work to be undertaken to form an opinion on the Council's financial statements and to conclude on whether the Council has arrangements in place to secure value for money in the use of its resources.

The Planning Summary attached outlined the financial statements' significant risk and areas of audit focus KPMG were currently considering as part of the audit planning process. The risk identification process was ongoing and as such the significant risk and areas of focus were

indicative at the present time and may change to reflect guidance and activity within the Council and generally in the sector. Currently, the five areas to be reviewed were:-

- Management override of controls
- Fraudulent revenue recognition
- Reserves and financial position
- Accounting for infrastructure assets
- Child Sexual Exploitation Claims

In developing the final Plan, KPMG would hold discussions with management and Commissioners to inform their Value for Money risk assessment and to finalise the significant risks and areas of audit focus in relation to the financial statements audit. The full Plan would be issued in April, 2016.

The 2015/16 audit fee of £140,828 represented a 25% reduction on the 2014/15 fee. The fee for 2016/17 and subsequent years would be set by the Public Sector Audit Appointments company set up by the LGA as successor body to the Audit Commission.

Resolved:- That the current position with regard to KPMG's audit planning for 2015/16 be noted.

#### **54. PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY**

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which detailed that, in accordance with the Prudential Code for Capital Finance, the Secretary of State's Guidance on Local Government Investments, the CIPFA Code of Practice for Treasury Management in Local Authorities and with Council policy, the Interim Strategic Director of Finance and Customer Services was required, prior to the commencement of each financial year to seek the approval of the Council to the following:-

- The Prudential Indicators and Limits for 2016/17 to 2018/19.
- A Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on Minimum Revenue Provision.
- An Annual Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management including the Authorised Limit.
- An Investment Strategy in accordance with the Department for Communities and Local Government (CLG) investment guidance.

The report formed a key part of the financial management reporting framework and covered the Prudential Indicators and Treasury and Investments Strategies for 2016/17 and the following two financial years. It also provided an update on the indicators for the 2015/16 financial year.



It had been developed having taken account of the revised Codes and reports published during 2009 and the changes to the Department for Communities and Local Government's Investment Guidance.

The strategies had been developed taking account of the approved capital programme and the proposed Capital Strategy which was due to be considered by the Cabinet/Commissioners Decision Making meeting to be held on 23<sup>rd</sup> February, 2016.

These capital expenditure plans, the associated prudential indicators and the impact the net financing need had on the Council's Capital Financing Requirement, were highlighted.

It was also explained that the Council's CFR varies as a result of the impact of the financing of the Council's PFI and finance leases and the effect of the Minimum Revenue Provision requirement. The CFR estimates reflect the effect of the recently approved amendments to the Council's MRP policy which are set out in Appendix A.

The impact of the Council's capital expenditure plans as they affect Treasury Management and included in the Treasury Management Strategy were outlined.

It was explained that the Council will continue to remain under-borrowed for some time yet against the CFR, with new borrowing only undertaken as maturities arise. In 2016/17 a sum of just over £17.3m was due to repaid at maturity. It was considered prudent to continue with an under-borrowed position as market conditions suggested investment interest rates would remain low and there was a cost of carrying debt.

On a day-to-day basis the Council was likely to have surplus funds available for investment and the strategy for dealing with this was outlined. The primary governing principle remained security over, secondly, liquidity, and then return. Having reviewed the current and likely position it was recommended the criteria used for counterparty selection remain unchanged together with the money and time limits. Current operational guidance still operates within tighter limits in view of on-going market conditions.

As a result of the continuing prudent approach investment levels together with the anticipated interest receipts arising from these investments were expected to remain low.

Councillor Wyatt asked about a Minimum Revenue Provision holiday. - It was explained MRP was charged against the revenue budget. By amending the MRP profile on pre-2007/08 debt short-term revenue benefits had been identified up until 2030. The lower initial charges were felt to be a more prudent as they better reflected the economic use of the assets and the charges to current and future Council taxpayers were more comparable taking account of the time value of money. Cost

equalisation on the existing and revised profiles would be reached in 2057. A short-term benefit to the revenue budget could be accessed by taking a MRP holiday but only to the extent considered prudent.

Resolved: - That the Cabinet be asked to recommend to Council:-

- i. The approval of the prudential indicators and limits for 2016/17 to 2018/19 as set out in the report.
- ii. The approval of the Minimum Revenue Provision Statement (Appendix A refers) which sets out the Council's policy on Minimum Revenue Provision.
- iii. The approval of the Treasury Management Strategy for 2016/17 to 2018/19 and the Authorised Limit Prudential Indicator.
- iv. The approval of the Investment Strategy for 2016/17 to 2018/19.

#### **55. ITEMS FOR REFERRAL FOR SCRUTINY**

The Council's position on risk management would be considered at a later February meeting of the Overview and Scrutiny Management Board.

#### **56. EXCLUSION OF THE PRESS AND PUBLIC**

The following items are likely to be considered in the absence of the press and public as being exempt under Paragraphs 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended March 2006) (information relates to finance or business affairs).

#### **57. INTERNAL AUDIT PROGRESS REPORT AND PLAN REVISIONS 2015-16**

It was agreed that this report would be considered at the additional meeting on 25<sup>th</sup> February, 2016, as it complimented the special report.

#### **58. STRATEGIC RISK REGISTER**

Further to Minute No. 45 of 24<sup>th</sup> November, 2015, Simon Dennis, Interim Corporate Risk Manager, presented the Strategic Risk Register which took account of updates from Directorates and the Strategic Leadership Team as well as comments from partners, the Cabinet, Overview and Scrutiny Management Board and the Audit Committee.

The Register had also been re-aligned to link with the headings in the draft Corporate Plan. Every child making the best start in life is the first heading. Flu Pandemic is now a separate risk – 'A strong community in a clean, safe environment'.

It was still subject to further refinement as a result of experience of its operation and the bedding in of new arrangements and becoming an integrated part of the performance management process. There remained different approaches across the Directorates, which impacted on the use of the Council's reporting/monitoring software.

- Councillor Wyatt referred to some of the business objectives, such as tackling family poverty, and noted that they could not be achieved by the Council alone.
- Councillor Ellis was concerned that around half of the risks did not have a permanent owner and asked how it was ensured that the risks were made aware to the substantive owner when they commenced their employment? Simon attended SLT every six-weeks to discuss risk and could confirm that Rotherham's new Chief Executive Officer was already holding named individuals to account. This was encouraging.
- Bernard Coleman asked whether there were any services that did not have any major risks? - Every Directorate had a risk/s on the Strategic Risk Register, but not every service.

Simon Dennis asked the Audit Committee to consider the information that they wanted to be presented in these updates. He described organisational hierarchy approaches to risk management and felt that there was a long way to go before comprehensive risk management was embedded across the full organisation.

Resolved:- That the current draft of the Strategic Risk Register be noted.

## **59. ADULT SERVICES RISK REGISTER**

Graeme Betts, Interim Director of Adult Services, and Councillor Roche, Cabinet Member for Adult Social Care and Health, were welcomed to the meeting.

Consideration was given to a report, presented by Graeme Betts, concerning the review of the Directorate's Risk Register.

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

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

Graeme chaired monthly Senior Management Team monitoring where strategic risks relating to Adult Social Care were considered. Operational risks reviewed on a weekly basis chaired by an Assistant Director,

including ensuring that mitigation actions were taken. Councillor Roche met with Graeme on a monthly basis with a performance focus. These meetings would be extended to include Lead Commissioner Sir Derek Myers.

The current key risk areas for the Adult Services Directorate were:-

- Risks associated with the Adults Change Programme which included reliance on traditional high cost placements, inefficient personalised services and underdeveloped commissioning strategies
- Meeting the legislative requirements of the Care Act
- Meeting the legislative requirements of the Care Act to provide advocacy services
- Delivery of the budget
- Compliance with the Mental Capacity Act (MCA) incorporating the Deprivation of Liberty Safeguards (DOLS)

Members discussed the following salient issues:-

- Councillor Ellis asked for assurances that areas where risks were persistently rated as red were being addressed. Graeme explained that there were several red areas which had made real progress over the past almost year that he had been in post. These had not yet been downgraded and were still areas of concern and these will be moved on.
- Councillor Wyatt asked how the Directorate addressed issues relating to fraud. Councillor Roche explained that the Adult Social Care Working Party were timetabled to discuss fraud prevention and the anti-fraud strategy. Councillor Wyatt emphasised that the responsibility sat within each Directorate rather than sitting centrally. Graeme agreed that these risks were addressed in the way the Directorate did business. This was especially important given the level of contracting taking place.
- Bernard Coleman asked for future risk registers to contain commentary on what has happened and the actions taken since last monitoring period.
- Councillor Ellis asked whether the quality of monitoring meetings was a priority? Casey recognised that meetings were taking place but that quality was not there. Councillor Roche explained that the meetings were formally minuted by the Cabinet Support Officer.
- Councillor Wyatt asked about 006 – Compliance with Care Act. Graeme explained that it had been implemented in April 2015 and the journey from implementation was seeing risks going from red to green. There were further issues resulting from the Mental Capacity Act and Deprivation of Liberty Safeguards, including assessment of advocacy. A legal decision had increased the number of eligible people overnight.
- Councillor Wyatt asked about the position of risk assessment at the NHS's Winterbourne View. Graeme was not aware of any current

major concerns.

Discussion was held on the format of the Adult Services' Risk Register. Councillors felt that the lack of commentary, timescales and details about the ownership of risks prevented detailed and useful analysis. A useful way forward within Audit Committee meetings would be to take one risk and conduct a deep-dive analysis on it. Considering a wide-range of risks risked becoming performance management. It was felt useful for Strategic Directors and Cabinet Members to attend and present these items and there was support that this should be retained.

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

(2) That further consideration be given to developing the Audit Committee's method of conducting Directorate Risk Register analysis.

## **60. PUBLIC HEALTH RISK REGISTER**

Consideration was given to a report, presented by Terri Roche, Director of Public Health, concerning the review of the Directorate's Risk Register. Also in attendance were Malcolm Chiddey, Public Health Specialist, and Councillor Roche, Cabinet Member for Adult Social Care and Health.

Terri described how Public Health's Risk Register was initially subject to weekly Senior Management Team monitoring and was now reviewed monthly at the Public Health Governance meeting. It was a live document, there had been nine risks and these had recently grown to ten. Risks were owned and embedded across the Public Health Directorate. Some risks would never be removed from the Register, such as pandemic flu (this was at the top of the national register), whereas within three to six months' time, some of the other risks would be discharged. New and emerging risks would be identified as time progressed and added to the Register.

The report contained, as an appendix, the latest position in relation to the Public Health Risk Register.

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

The current key risk areas for the Public Health Directorate were:-

- To reduce the impact of any flu pandemic in Rotherham
- To reduce the impact of any communicable disease incident/outbreak in Rotherham
- To provide contingency funding and support to deal with any unplanned Public Health duties

- To ensure that Public Health continues on planned programmes of work to protect/improve the lives of the people of Rotherham

Terri was thanked for her informative presentation.

Resolved:- That the report be received and the contents of the Public Health Risk Register be noted.

**61. SPECIAL MEETING**

Resolved: - That the next meeting of the Audit Committee take place on Thursday 25<sup>th</sup> February, 2016, to start at 3.00 p.m. in the Rotherham Town Hall.