

**AUDIT COMMITTEE
20th July, 2016**

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

Tim Cutler, KPMG, was also in attendance.

1. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS

The member of the public present at the meeting did not wish to ask a question.

2. MINUTES OF THE PREVIOUS MEETING HELD ON 27TH APRIL, 2016

Consideration was given to the minutes of the meeting held on 27th April, 2016.

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

3. AUDIT COMMITTEE PROSPECTUS 2016-17

Colin Earl, Assistant Director Audit, ICT and Procurement, presented the Audit Committee Prospectus for 2016/17 which outlined the objectives and standards of the Committee, the scope of its work and how it would seek the assurance with regard to the management of risks across the Council together with an updated schedule of reports to be submitted during 2016/17.

Key Audit Committee activities reflected in the 2016/17 Prospectus included:-

- Satisfying itself and others that the annual Governance Statement reflected the Council's arrangements and position including the refresh of the Local Code of Corporate Governance
- Monitoring the effectiveness of the internal control environment and assurances obtained about its operation
- Ensuring Internal Audit was independent and effective
- Reviewing the Council's arrangements for managing the risk of fraud
- Reviewing the external auditor's annual audit plan and ensuring it was consistent with the scope of audit engagement
- Reviewing the findings of the external auditor's work
- Reviewing the financial statements and the external auditor's opinion in the statements
- Considering external audit and inspection recommendations and ensuring they were fully responded to

Appendix 1 of the Prospectus set out the Committee's 2016/17 workplan demonstrating how it would fulfil all those responsibilities and the reports that would be submitted during the course of the financial year.

An Audit Committee Annual Report would be produced at the end of the year summarising actual work done and activities undertaken, demonstrating compliance with standards and fulfilment of the Committee's responsibilities.

It was noted that the second year of the Council's Improvement Plan was much more focussed on governance related issues which would be of direct interest to the Committee as the Plan progressed. In recognition, a report would be submitted to alternate meetings identifying progress on governance related issues in the Improvement Plan.

Discussion ensued on the report with the following issues raised/highlighted:-

- The process of assurance mapping was being undertaken
- External audit procurement

Resolved:- (1) That the Audit Committee's 2016/17 Prospectus be approved.

(2) That the report be referred to the Overview and Scrutiny Management Board for information.

4. PUBLICATION OF UNAUDITED ACCOUNTS 2015-16

In accordance with Minute No. 52 of the meeting held on 10th February, 2016, Simon Tompkins, Finance Manager, submitted the Council's unaudited 2015/16 accounts which had been published on the Council's website on 30th June, 2016, as required under the Accounts and Audit Regulations 2015.

The publication of the unaudited accounts triggered a period of 30 working days (ending on 11th August, 2016) for local electors to exercise their rights to inspect the accounts and supporting records and to ask questions of the external auditor.

The external audit of the unaudited accounts was also underway with KPMG to report their findings to the September meeting of the Committee.

The deadline for publishing the audited accounts was 30th September, 2016.

The main changes to the 2015/16 accounts were:-

- Introduction of a Narrative Report – a new requirement the purpose of which was to give a fair and balanced commentary of the development and performance of the Council against its corporate and financial objectives and of its key strengths and resources
- Creation of earmarked revenue reserves to address specific financial risks
- Technical change to the way in which charges for the repayment of debt (MRP) were presented in the accounts
- Opening of the Joint Waste PFI facility in July, 2015
- Establishment of the Better Care fund for the operation of integrated health and social care with NHS Rotherham

Discussion ensued on the report with the following issues raised/highlighted:-

- Faster closure of the accounts – from 2017 the deadline for unaudited accounts would be 31st May and audited accounts by 31st July
- From 1st April, 2016, change to the way in which the Council's highways assets were valued and presented in the balance sheet. Currently the value was based on historic cost but would now be revalued to their current replacement cost
- KPMG overall materiality level of £10M
- The newly created reserve for pensions deficit did not take into account any potential impact of Brexit
- Housing Revenue Account income and expenditure were linked to the 30 year business plan and the move to self-financing

Resolved:- That the unaudited 2015/16 Statement of Accounts be received.

5. 2015-16 DRAFT ANNUAL GOVERNANCE STATEMENT (AGS)

Consideration was given to the 2015/16 draft Annual Governance Statement (AGS) presented by Colin Earl, Assistant Director, Audit, ICT and Procurement.

The 2014/15 Statement had included substantial references to the Jay, Ofsted and Casey inspections and the subsequent Government intervention. These issues remained very significant context to the Council's current position and its arrangements, alongside the improvement work that had been in place for over a year.

The overall conclusion of the review of governance was that, although there had been much positive progress over the course of the last year, the Council was not demonstrating good governance and meeting its Best Value duty throughout the whole of the year.

Consultation had taken place with the Commissioners, Cabinet Members and external audit and their comments reflected in the draft AGS.

Recommended practice required the Leader of the Council and the Chief Executive to sign the Annual Governance Statement prior to its publication.

It was suggested that some narrative should be included to point 4.18 where it stated “not including audit” making it clear that it referred to Internal Audit and not the Audit Committee.

Discussion ensued with the following issues highlighted/clarified:-

- The Adult Transformation Plan was due to be presented to Elected Members shortly
- There was now closer working with the Rotherham Schools Forum regarding the commissioning and managing delivery of school improvement activity
- A full action plan had been implemented to address weaknesses identified in the Council’s response to Freedom of Information requests made by the public

Resolved:- (1) That the 2015/16 draft Annual Governance Statement be noted.

(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, 2016, be noted.

(3) That the final version of the Annual Governance Statement be submitted to the September meeting of the Audit Committee following completion of the audit of accounts by KPMG.

(4) That an All Members Seminar be arranged on this subject matter.

6. ANNUAL TREASURY MANAGEMENT AND ACTUAL PRUDENTIAL INDICATORS 2015-16

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 2015/16 financial year and also a mid-year review of treasury activity.

The annual treasury management report was the final treasury report for 2015/16. Its purpose was to review the treasury activity for 2015/16 against the Strategy agreed at the start of the year.

The report also covered the actual Prudential Indicators for 2015/16 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, 2015 and the level of the Council's external debt and investments.

It was noted that the actual capital expenditure spend was less than the original and revised estimate due to slippage in the programme during the financial year.

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

7. EXTERNAL AUDIT 2015-16 - PROGRESS

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which reported receipt of a letter from KPMG setting out progress on the 2015/16 external audit.

Tim Cutler, KPMG, stated that, through the work to date, they did not feel it necessary to present an internal audit report to Committee as they had not identified any significant issues which required reporting. The small number of matters discussed with officers would be included in the ISA260 report which would be submitted to the September Audit Committee meeting.

Resolved:- That the KPMG letter and progress made on the 2015/16 external audit be noted.

8. INTERNAL AUDIT COMPLIANCE WITH UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

Further to Minute No. 72 of the meeting held on 27th April, 2016, Colin Earl, Assistant Director of Audit, CIT and Procurement, presented an update on progress against the recommendations made in the recent Price Waterhouse Coopers (PWC) review of Internal Audit.

The report set out key progress to date as well as the key next steps.

Appendix 1 of the report submitted was Internal Audit's working control document in terms of what needed to be done in order to demonstrate compliance with the standards.

Future reports on progress would be subject to external review as agreed by the Chief Executive and the Audit Committee. Veritau Ltd. had been appointed following a tendering exercise to assist with checking and supporting progress.

Veritau Ltd. had carried out a high level review of the work undertaken so far and the progress made to date and had stated that the action plan was a reasonable reflection of the actions taken and being proposed. They were scheduled to complete a more detailed update by September and a full re-assessment of Internal Audit's compliance with the Standards by December, 2016.

Members were asked for feedback on the content of the report. It was felt that the content should remain the same until December, 2016, and then by exception.

A Quality Assurance Improvement Programme had been established whereby senior managers reviewed a sample piece of work that had been carried out by Internal Audit to ascertain that the processes were operating as they should. The Programme would commence in August, 2016 with the findings of the review reported to the Committee.

Resolved:- (1) That the progress on the action plan in place to achieve compliance with Public Sector Internal Audit Standards be noted.

(2) That Veritau Ltd.'s comments on progress be noted.

9. IMPLEMENTATION OF RECOMMENDATIONS RESULTING FROM THE PWC REVIEW OF INTERNAL AUDIT

Colin Earl, Assistant Director of Audit, ICT and Procurement, submitted an update on progress made against the recommendations in the recent Price Waterhouse Coopers' (PWC) review of Internal Audit.

Progress was currently being made in accordance with the majority of the action plan. However, there remained a significant amount of development and improvement required to bring the Service up to full compliance with Standards and to where it could better add value to the development of the Council's control arrangements.

Reports on progress would be subject to external scrutiny as agreed by the Chief Executive and Audit Committee (Minute No. 72 of 27th April, 2016 refers). A partner, Veritau Ltd., had been appointed following a tendering exercise to assist with checking and supporting progress. Veritau Ltd. had looked at the report and confirmed that it was a fair and accurate reflection of current progress against the PWC action plan.

It was noted that of the PWC recommendations, 19 actions (spread across 17 recommendations), 6 had been completed, 2 rated green (certain to be achieved) and 11 rated amber (in progress/on target). There were no red rated actions (off target/requiring action).

The remaining actions would be completed by December, 2016 when a full review would then be undertaken.

Resolved:- That the progress made in implementing the recommendations included in the PWC review of Internal Audit be noted.

10. INTERNAL AUDIT PROGRESS REPORT FOR THE THREE MONTHS ENDING 30TH JUNE 2016

Consideration was given to a report presented by Colin Earl, Assistant Director Audit, ICT and Procurement, which provided a summary of Internal Audit work and performance for the period April to June, 2016.

Following the presentation of the Price Waterhouse Cooper review of Internal Audit (Minute No. 64 of 25th February, 2016), Veritau Ltd. was commissioned to independently review and provide commentary of Internal Audit progress reports presented to the Audit Committee in 2016/17. Veritau Ltd. had reviewed the report and confirmed that it was a reasonable reflection of the work done by the Service during the period.

The Service was facing a very significant transition period involving a restructure, a further reduction in resources available to the team and a current vacancy for a Head of Internal Audit. These factors had negatively impacted upon the resources available to progress the audit programme during quarter 1.

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 2016/17 financial year were set out in Appendix A of the report submitted together with the audits that were at draft report stage.

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

The report highlighted:-

- An Internal Audit Plan for 2016/17 had been produced in line with the UK Public Sector Internal Audit Standards
- Internal Audit had delivered 7.5% of the Audit Plan in the first quarter of the year against an expectation of 12%
- Management responses and action plans were in place for all recommendations made by Internal Audit during the period

Discussion ensued with the following issues raised/clarified:-

- The recruitment process was underway for 3 members of staff
- A temporary auditor had been appointed to help progress the Improvement Plan
- The amount of responsive work/unplanned work received which was at the detriment of the delivery of the Plan
- Acknowledgement that it would take time for the new staff members to be up to speed, therefore, a risk to the Plan delivery
- Internal Audit were contractually committed to provide audit services on a fee earning basis to 6 academies for 2016/17

Resolved:- (1) That the performance of the Internal Audit Service during the period ending 30th June, 2016, and the key issues therefrom be noted.

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

(3) That the independent assurance provided by Veritau Ltd. on the report be noted.

11. KPMG RISK REGISTER ANALYSIS

Simon Dennis, Interim Corporate Risk Manager, presented the above report.

KPMG had produced a comparison of risk management arrangements and risks across all their local government clients and compared Rotherham's arrangements and risks to its findings.

The following 8 risks were the most frequently occurring on local authority risk registers:-

- Delivering the financial plan
- Business continuity/disaster recovery/emergency planning
- Data loss/information security/information governance
- Staff morale
- Safeguarding vulnerable children and adults
- Delivering major projects
- Asset management
- Planning and development

The report demonstrated that the Council's Risk Registers and Risk Management processes were in line with those at the majority of other local authorities. The revision of the Risk Strategy and Policy would consider where differences had been identified.

Discussion ensued with the following issues raised/highlighted:-

- The Strategic Leadership Team reviewed and updated the Strategic Risk Register on a 6 weekly basis
- Risks allocated to Elected Members – not many local authorities did this but may wish to consider as part of the Risk Policy and Strategy Review
- The Register currently did not capture Board Assurance Frameworks and Mapping but would be picked up as part of the refresh
- Concern that data loss/information security/information governance did not appear on the Register but numerous comments made throughout the reports on the agenda with regard to significant weaknesses identified in the Council's management of information and governance. Why did the Strategic Leadership Team feel that this should not be included?
- The Risk Register was not submitted to the Cabinet

Resolved:- (1) That the KPMG Local Authority Corporate Risk Register analysis be noted.

(2) That the report be referred to the Overview and Scrutiny Management Board together with the proposal that the Cabinet should receive the Strategic Risk Register on a quarterly basis.

12. ITEMS FOR REFERRAL FOR SCRUTINY

Audit Committee Prospectus 2016/17
KPMG Risk Register Analysis

13. EXCLUSION OF THE PRESS AND PUBLIC

That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12(A) of such Act indicated, as now amended by the Local Government (Access to Information) (Variation) Order 2006 (information relates to finance and business affairs).

14. STRATEGIC RISK REGISTER

Simon Dennis, Interim Corporate Risk Manager, presented the current Strategic Risk Register which took account of updates from Directorates, the Strategic Leadership Team and the Audit Committee.

The Register was currently updated every 6 weeks and presented to the Strategic Leadership Team.

The current Register had been constructed from updates provided by risk owners. There were 7 new risks and 3 that had been removed giving a total of 25 risks.

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 upon the use of the Council's reporting/monitoring software.

Discussion ensued on the associated financial risk, the new risks that had been added to the Register and the "deep dives" for 2016/17. It was suggested that each Directorate be asked to highlight its top 10 risks on the Register and select 2/3 to be the subject of the "deep dive".

Reference was also made to the risks and mitigation paragraph on the report template and that that it should reference which strategic risk the subject matter linked to. This would then allow the Audit Committee to ascertain whether the report addressed what it was supposed to in accordance with the Strategic Risk Register.

Resolved:- (1) That the updated Strategic Risk Register be noted.

(2) That the 2016/17 schedule of "deep dives" be as follows with the respective Cabinet Member and Strategic Director invited to attend the meeting:-

21 st September, 2016	Children and Young People's Services
23 rd November, 2016	Adult Social Care and Health
8 th February, 2017	Finance and Corporate Services/ Assistant Chief Executive
19 th April, 2017	Regeneration and Environment

(3) That the Strategic Leadership Team be requested to consider report authors referencing the Strategic Risk Register on the report template.

15. DATE OF NEXT MEETING

Resolved:- That a further meeting be held on Wednesday, 21st September, 2016, commencing at 4.00 p.m.