

**AUDIT COMMITTEE
21st September, 2016**

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

Mr. T. Cutler and Mrs. D. Chamberlain (KPMG) were also present.

16. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS

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

17. MINUTES OF THE PREVIOUS MEETING HELD ON 20TH JULY, 2016

Consideration was given to the minutes of the meeting held on 20th July, 2016.

Resolved:- That the minutes of the previous meeting be approved as a correct record for signature by the Chairman subject to the following clerical correction:-

Minute No. 7 (External Audit 2015-16 – Progress) “.... Necessary to present an interim audit report” and not internal as stated.

18. STATEMENT OF ACCOUNTS 2015/16

Consideration was given to a report presented by Simon Tompkins, Finance Manager, which advised on matters arising from the external audit of the Council's 2015/16 Statement of Accounts as presented in the External Auditor's ISA260 report and, in acknowledging these findings, requested that the Audit Committee approve both the Letter of Management Representations and the audited Statement of Accounts 2015/16.

In relation to the “value for money” conclusion, KPMG had acknowledged that a considerable amount of progress had been achieved during 2015/16 in line with the Corporate Improvement Plan. However, because further work remained to be done for all the required improvements to be completed and become fully embedded, it had been necessary to issue an adverse opinion in 2015/16 as was the case in 2014/15.

Debra Chamberlain, KPMG, reported that the unaudited Statement of Accounts had now been subject to audit and no audit adjustments had been necessary other than a small number of presentation changes. All of these changes had been incorporated into the final version of the Statement of Accounts and none affected the financial performance or financial position of the Council previously reported in the unaudited Statement of Accounts.

The Auditor's ISA 260 report also confirmed that working papers were of a good standard and that audit queries were dealt with efficiently. In terms of the areas of significant audit risk and areas of audit focus, KPMG had confirmed that no issues had been identified and that reasonable professional judgement had been exercised. Two recommendations had been made in relation to the accounts production and audit process.

Section 4 of the ISA 260 set out the approach, risks, work and conclusion reached by KPMG on whether the Council had satisfactory arrangements in place to secure the economy, efficiency and effectiveness in the use of its resources. The conclusion reached was that the Council had not had proper arrangements in place during 2015/16. However, this was in the context of significant progress having been made in 2015/16 towards delivery of the Corporate Improvement Plan and recognition that the new senior management team were driving through continuing improvement in 2016/17.

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

- There had been a lot of investment into frontline services and support services within Children's Services but still felt to be gaps
- A report would be submitted to the Cabinet reviewing the Medium Term Financial Strategy, a significant amount of which would relate to CYPS and what was required for a sustainable position
- It was not known if a qualified Value for Money statement would be achieved for 2016/17. The first self-assessment would be submitted shortly and that would be tested through the document and discussions
- The failure of the restoration of powers to the Council would not necessarily impact upon the view of KPMG: the bigger impact was in relation to the governance arrangements particularly for CYPS

Resolved:- (1) That the Auditor's ISA260 report to those charged with governance attached at Appendix 1 be approved.

(2) That the Statement of Accounts 2015/16 be approved for publication.

(3) That KPMG be issued with the Letter of Management Representations.

19. 2015/16 FINAL ANNUAL GOVERNANCE STATEMENT

Colin Earl, Assistant Director Audit, ICT and Procurement, presented the final Annual Governance Statement 2015/16.

Since the draft Statement had been considered at the meeting on 20th July, 2016 (Minute No. 5 refers), there had only been a few minor updates to reflect developments, the most notable being the completion of the external audit of the accounts and the external auditor's Value for Money conclusion. KPMG would be issuing an unqualified opinion on the Council's accounts. The Council's own overall conclusion on its governance arrangements was that, although there had been much positive progress over the last year, the Council was not demonstrating good governance and meeting its Best Value duty throughout the whole of the year.

Consultation had been carried out with the Commissioners' Office, Cabinet Members and the external auditor in producing the Annual Governance Statement.

In line with the Accounts and Audit Regulations, the final Statement would be signed by the Leader and Chief Executive.

Discussion ensued with the following issues raised/highlighted:-

- Assessments were being carried out with regard to major project development which had not been as robust as would be expected in the past
- There were a number of methodologies for officers to use which had been reviewed to ensure there was a minimum standard adopted
- The newly appointed Assistant Director for Information and Digital Information Services would commence employment on 10th October. He would be reviewing and ensuring a corporate, rather than a departmental, approach to IT projects

Resolved:- (1) That the certification of the final Annual Governance Statement by the Leader of the Council and the Chief Executive, as required by the Accounts and Audit Regulations and related Guidance, be noted.

(2) That the attached final Annual Governance Statement 2015/16, amended for the updated Section 5.3.2., be approved.

20. ANTI-FRAUD AND CORRUPTION POLICY AND STRATEGY

Colin Earl, Assistant Director of Audit, ICT and Procurement, submitted a proposed update to the Council's Anti-Fraud and Corruption Policy and Strategy following an annual review process designed to ensure that the Policy and Strategy were up-to-date with current best practice and to take into account any changes to the Council's organisation structure.

The report also provided a summary of proposals to further strengthen the Council's fraud and corruption arrangements following a refresh of the self-assessment against the CIPFA Code of Practice on managing the risk of fraud and corruption.

The main changes to the documents were:-

- Update on the roles and responsibilities
- Update on the procedure for reporting suspected fraud and corruption including reference to the provisions of the Public Concern at Work resources
- Inclusion of a procedure on the investigation of suspected fraud and corruption
- Updated assessment of the Council's arrangements compared with the CIPFA Code on Managing the Risk of Fraud
- Reflect the assessment needed to ensure the Council meets the expectations of the Fighting Fraud Locally best practice guidance
- Inclusion of requirements relating to the Government's Transparency Code

The updated Anti-Fraud and Corruption Policy was attached at Appendix A and the updated Strategy at Appendix B. Appendix C of the report contained an update to the self-assessment against the CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and Appendix D was an update to the Council's action plan for Managing the Risk of Fraud. It was important that the arrangements continued to be reviewed and updated where necessary to ensure the risk of fraud continued to be minimised.

It was noted that Veritau Ltd.'s Deputy Head of Internal Audit had examined the report and stated that the Council was picking up the areas they would expect across the Policy and Strategy and using the right approach for the Strategy. Some of the work being undertaken was more advanced than he had seen at some other organisations.

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

- A training session with all middle managers had been held to raise their awareness of fraud risks, how to spot signs, how to ensure appropriate controls in place etc. which was then followed up with actual workshops. This had led to identification of a significant number of fraud risks across all areas
- Amendment to 4.9 "... are reported to him/herself"

Resolved:- (1) That the proposed revisions to the Anti-Fraud and Corruption Policy and Strategy be approved.

(2) That the proposed actions intended to strengthen the Council's Fraud and Corruption arrangements.

21. INTERNAL AUDIT CHARTER AND STRATEGY

Further to Minute No. 19 of the meeting held on 23rd September, 2015, Colin Earl, Assistant Director Audit, ICT and Procurement, presented the revised Charter which had been updated following the recent restructure in Internal Audit and the work Internal Audit had carried out in order to comply with the PSIAS in other areas.

Following the presentation of the PWC review of Internal Audit in February 2016, Veritau Ltd. was commissioned to independently review and provide commentary on reports submitted to the Audit Committee. The draft revised Charter had been reviewed by Veritau Ltd. who had concluded that in their opinion the Internal Audit Charter was compliant with the PSIAS.

The main changes were:-

- Reflected the appointment and responsibilities of the new Head of Internal Audit
- Mission of Internal Audit had now been incorporated in line with changes to the auditing standards introduced in April, 2016
- Addition of the new core principles introduced by the April 2016 changes to the standards
- Requirements for auditor independence from activities they may have previously been involved in
- Limits and purposes of any internal audit work done for external bodies
- Internal Audit's responsibilities relating to risk management
- Extension of Internal Auditor requirements to comply with ethical standards
- Extended reference to Internal Audit's involvement in dealing with suspected cases of fraud and corruption and its liaison with others as appropriate
- New Section 18 explaining how the Charter absorbed the former separate Audit Strategy and Audit Terms of Reference

An issue was raised regarding Internal Audit undertaking work for third parties. Initially the Head of Internal Audit would make a judgement as to how much of the work could be covered by the team. The view now was that the Authority would complete its current contractual arrangements but would not be actively seeking any more work of this type.

Veritau Ltd. had reviewed the Charter and concluded that, in their opinion, it was compliant with the PSIAS.

Resolved:- That the Internal Audit Charter be approved.

22. INTERNAL AUDIT - PWC ACTION PLAN UPDATE

Further to Minute No. 64 of the meeting held on 25th February, Colin Earl, Assistant Director Audit, ICT and Procurement, submitted the second progress report on the implementation of the recommendations made in the PWC review of Internal Audit.

Internal Audit had operated with a high vacancy level during most of 2016 to date. In addition there had been significant change since production of the PWC report including a refresh of procedures, a full service restructure and the subsequent recruitment to the Head of Internal Audit and a vacant senior auditor post.

Appendix 1 contained a full update of progress against the PWC recommendations with the key points being:-

Actions completed/certain to be completed as at July, 2016

- 19 actions, spread across 17 recommendations, 10 of which had been completed, 2 rated green (certain to be achieved) and 7 were amber rated (in progress/on target). There were no red rated actions
- 2015/16 audit plan was successfully delivered (with 95% delivery achieved against the final plan)
- Completed service review and a restructure determined
- Audit structure and budget set up to provide for specialist audit resources to be engaged as required to carry out specified work in the audit plan
- Audit agreement between Rotherham and Doncaster Councils terminated on 30th September, 2016

Key progress since July report

- Recruitment to the new structure
- PDRs completed and a team development plan produced/implementation commenced
- Revised Audit Charter and Strategy
- Streamlined and improved audit review process
- New risk based style of audit report
- Proposed implementation of an electronic audit system

Key actions in progress:-

- Regular review and reporting to Audit Committee of Audit plan
- Embedding of new audit scoping, reporting and performance monitoring and management processes
- Implementation of electronic audit system, streamlining of administration and reduction of non-productive time
- Development of assurance mapping

There remained a significant amount of development and improvement 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.

Progress against the action plan would be reported to the Audit Committee during 2016/17. Veritau Ltd. had been asked to comment on the progress reports and commented that it was an accurate reflection of the current position.

Discussion ensued with the following points raised/highlighted:-

- Was there a different way of evaluating the process from a stakeholder's perspective?
- A review of inspections should be conducted identifying the client's views of the services provided
- The Team were receiving a high level of referrals by management and whistleblowing which was an indicator of the organisation seeing the Service as a valuable resource

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

23. INTERNAL AUDIT COMPLIANCE WITH AUDITING STANDARDS UPDATE

Further to Minute No. 9 of 20th July, 2016, 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.

Internal Audit had continued to implement actions to bring the Service back towards full compliance. An updated assessment of progress in implementing the necessary improvements was shown in the action plan (Appendix 1).

There were 76 actions in total; the current assessment was that there were 29 amber rated actions and 47 green rated actions. There were no red rated actions.

The report set out the key progress made since the previous update submitted to the July, 2016 Audit Committee meeting together with the next steps.

This represented a continually improving position although there remained a significant amount of work to complete the action plan and more importantly embed the requirements into the audit processes and procedures.

A full re-assessment of Internal Audit's compliance with the standards was due to be completed by December, 2016.

Veritau Ltd. had carried out a light touch review of the update and had stated that the action plan reflected the work being done by the Service to ensure compliance with the standards although some of the actions were clearly a work in progress.

It was suggested that for future reports the table setting out the key next steps include actions not completed to enable the Committee to monitor the key actions.

Resolved:- (1) That the progress made 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.

24. INTERNAL AUDIT PROGRESS REPORT APRIL TO AUGUST 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 August, 2016.

Performance against key indicators was generally positive although delivery of the planned programme of work remained behind schedule (19% against an expected 26%) due mainly to vacancies and other service priorities. Two new members of staff would commence in October including the new Head of Internal Audit and it was anticipated that the additional resources would enable the Service to get on target against the plan by December.

Despite the challenges it faced, Internal Audit was exceeding other key performance targets and feedback on several pieces of work completed demonstrated value added by the Service.

Details of the work undertaken during the period in question were included in Appendix 1 of the report submitted.

Veritau Ltd. had reviewed the report and had confirmed that the content was a reasonable reflection of Internal Audit work done for the first 5 months.

There was a commitment in the Service and Team to complete the Audit work programme and achieving the Performance Indicators alongside the additional demands being placed upon the Service.

Discussion ensued with the following issues raised/highlighted:-

- IT issues relating to historical projects/schemes
- Suggested mid-year review report setting out progress against the issues flagged for improvement in the Annual Governance Statement
- Staffing of the Licensing Enforcement Section

Resolved:- (1) That the Internal Audit work undertaken during the 5 months ending 31st August, 2016, and the key issues that had arisen 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.

(4) That the Committee's appreciation of the hard work of the Internal Audit Team be placed on record.

25. EXCLUSION OF THE PRESS AND PUBLIC

Resolved:- That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following 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).

26. CHILDREN AND YOUNG PEOPLE SERVICES - RISK REGISTER UPDATE

Ian Thomas, Strategic Director, presented the current Strategic Risk Register and risk management activity for Children and Young People's Services.

The current Register had 8 registered risks. A regular scheduled programme of reviewing and updating Service area and Directorate level risk registers had been implemented across CYPS and risks regularly discussed and reviewed at the Directorate Leadership Team. Where necessary risks were escalated to the next strategic level tier for inclusion on the risk register.

Discussion ensued on:-

- Staff resilience
- Use of agency staff
- Supporting the workforce

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- Customer Service Excellence
- Liquid Logic
- Corporate Parenting Panel
- Embedding of risk management
- Budget/overspend
- Moratorium on spend

It was suggested that the Register template should include progress achieved with regard to the new target score. It was noted that the template was currently being reviewed by the Risk Manager.

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

(2) That the next “deep dives” be Adult Social Care and Health with the respective Cabinet Member and Strategic Director invited to attend the meeting

(3) That the Risk Manager consult with the Audit Committee as a key stakeholder with regard to the revised Risk Register template.

(Councillor Wyatt vacated the Chair mid-way through this item. Councillor Walsh assumed the Chair.)

27. ITEMS FOR REFERRAL FOR SCRUTINY

There were no items for referral.

28. COLIN EARL, ASSISTANT DIRECTOR, AUDIT, ICT AND PROCUREMENT

The Chairman reported that this would be Colin’s last meeting as he was leaving the employment of the Authority.

Resolved:- The Committee thanked Colin for all his good work whilst he had been at the Authority and wished him all the best for the future.

29. DATE OF NEXT MEETING:-

Resolved:- (1) That a further meeting be held on Wednesday, 23rd November, 2016.

(2) That the Cabinet Member and Strategic Director be invited to present the Adult Social Care and Health Risk Register.