

**AUDIT COMMITTEE
27th November, 2018**

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

Mr. T. De Zoya, Grant Thornton, was also present.

Councillors Allen and Lelliott were in attendance for Minute No. 58 (Regeneration and Environment Directorate's Risk Register).

43. DECLARATIONS OF INTEREST

Minute No. 55 (Appointment of Independent Person) - Bernard Coleman made a Personal Declaration.

44. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS

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

45. MINUTES OF THE PREVIOUS MEETING HELD ON 2ND OCTOBER, 2018

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 2nd October, 2018.

Arising from Minute No. 32 (Audit Committee Terms of Reference), an update was sought as to whether the updated Terms of Reference had been considered by the Constitution Working Group.

Resolved:- (1) That the minutes of the previous meeting of the Audit Committee be approved as a correct record of proceedings.

(2) That an update be submitted to the next meeting with regard to the Terms of Reference.

46. MID-YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING REPORT 2018-19

Consideration was given to the report presented by the Finance Manager outlining a mid-year treasury review.

The review, as set out in the Appendix submitted, highlighted the key changes to the Council's capital activity (the PIs) and the actual and proposed treasury management activity (borrowing and investment).

With regard to investments, the primary governing principle remained security over return and the criteria for selecting counterparties continued to reflect this.

Overall borrowing remained fairly constant over the period covered by the report. The Council would maintain its strategy of being significantly under-borrowed against the capital financing requirement as the most cost effective approach in the current financial climate. The Council's existing Treasury Management Strategy provided for the Council to take out £30M of new borrowing per annum over the next 4 years to reduce the amount of under-borrowing over time. The position would remain under review and an update of the Strategy would be submitted to Members within the Budget and Council Tax 2019/20 report to Council in February, 2019.

With regard to governance, strategies and monitoring were undertaken by the Audit Committee.

The report showed that the underlying economic and financial environment remained difficult for the Council, foremost being the improving but still challenging concerns over investment counterparty risk. This background encouraged the Council to continue maintaining investments short term and with high quality counterparties. The downside of such a policy was that investment returns remained low. The governing principle remained security over return and the criteria for selecting counterparties continued to reflect this.

Treasury Management and Prudential Indicators would form part of the 2019/20 budget report submitted to Council on 27th February, 2019.

Discussion took place with the following issues raised/clarified:-

- Acknowledgement that the delay in taking out new long borrowing did give rise to an element of interest rate risk as long term borrowing rates may rise. However, the situation was closely monitored
- Working with Treasury Management, the interest rates were looked at on an almost daily basis with further updates at a weekly briefing

Resolved:- That the report be noted.

47. EXTERNAL AUDIT ANNUAL AUDIT LETTER 2017-18

The Finance Manager reported that KPMG had now concluded their 2017/18 audit and had issued their audit certificate on 31st August, 2018. Both the audit certificate and notice of conclusion of audit had been published on the Council's website.

The audit work had been designed to specifically address the following significant risks:-

- Valuation of PPE
- Pensions Assets and Liabilities
- Faster Close

A copy of the AAL was attached to the report.

The main headlines from the AAL in relation to the accounts and other audit responsibilities were that:-

- The external auditor had issued an unqualified audit opinion on the Authority's financial statements on 31st July
- 4 adjusted audit differences were identified. These adjustments did not impact the prime financial statements
- 4 unadjusted audit differences were identified. As the majority related to estimates in property, plant and equipment, no amendment was required as the actual value of the adjustments was not certain
- An unqualified conclusion on the Authority's arrangements to secure value for money (VFM) for 2017/18 on 31st July, 2018
- A risk assessment had been undertaken as part of the VFM audit work to identify key areas impacting on their VFM conclusion. Financial sustainability and delivery of the Children's Services Improvement Plan had been identified
- The Annual Governance Statement approved at the July Audit Committee (Minute No. 24 refers), was consistent with KPMG understanding and compliant with the CIPFA/SOLACE framework on good governance in local government
- The Council's consolidation pack prepared to support the production of Whole of Government Accounts by HM Treasury was consistent with the audited financial statements
- There were no high priority recommendations or other matters that needed to be brought to the attention of the Audit Committee

Resolved:- That the final Annual Audit Letter 2017/18 presented to the Council by its former external auditors, KPMG LLP, be noted and approved for publication on the Council's website.

48. EXTERNAL AUDIT AND INSPECTION RECOMMENDATIONS

Further to Minute No. 7 of the meeting of the Audit Committee held on 19th June, 2018, consideration was given to a report, presented by Bev Pepperdine, Performance Assurance Manager, providing details of recent and current external audits and inspections including the details of

arrangements that were in place regarding the accountability and governance for implementing recommendations arising therefrom.

The report included detail of progress being made in respect of the following specific areas and Directorates:-

- the "Fresh Start" Improvement Plan;
- Adult Care and Housing;
- Children and Young People's Services;
- Liberty House
- Regeneration and Environment Services
- Finance and Customer Services

The summary of recommendations from "Active" Inspection and Audit Action Plans was appended to the submitted report.

Senior Managers attended the Annual Conversation with HMI Ofsted on 20th November, 2018. This was a formal discussion which included a self-evaluation by Children's Services and discussion of progress against the 8 recommendations from their previous inspection. It was hoped that a number of the 33 actions identified to address the 8 Ofsted report recommendations would be classed as complete when the outcome of the Annual Conversation was received in January 2019.

Resolved:- (1) That the report be received and its contents noted.

(2) That the governance arrangements that were currently in place for monitoring and managing the recommendations from external audits and inspections, as now reported, be noted.

(3) That the Audit Committee continue to receive regular reports in relation to external audit and inspections and the progress made in implementing recommendations.

49. USE OF SURVEILLANCE AND ACQUISITION OF COMMUNICATIONS DATA POWERS - UPDATE

Dermot Pearson, Assistant Director, Legal Services, presented an update on the use of covert surveillance and covert human intelligence sources (CHIS) carried out by Council officers under the Regulation of Investigatory Powers Act 2000 (RIPA).

As previously with the Office of Surveillance Commissioners (OSC), the Council was required to notify IPCO of the number of directed surveillance/CHIS authorisations granted in each financial year. The annual return submitted in April for the 2017/18 financial year confirmed that there had been no such authorisations in that period nor had there been any such authorisations so far this calendar year.

The Council was also required to notify the Interception of Communications Commissioner's Office of the number of authorisations for the acquisition and disclosure of communications data granted each calendar year. There had been no such authorisations so far in 2018.

The Council's Policies were considered by the Committee in June, 2018 and re-adopted with minor amendments. However, the publication of the Revised Codes of Practice for Covert Surveillance and Property Interference and for Covert Human Intelligence Sources would require the RIPA Policy to be reviewed before the next scheduled annual review in June 2019.

Resolved:- (1) That it be noted that the Council had not made use of surveillance or acquisition of communication data powers under RIPA to date in 2018.

(2) That a further report be submitted on the implications of the Home Office's revised Codes of Practice on covert surveillance and interference with property and on covert human intelligence sources.

50. CODE OF CORPORATE GOVERNANCE

David Webster, Head of Internal Audit, submitted the refreshed Council Code of Corporate Governance for consideration.

In April 2016 CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives) published revised guidance on delivering good governance in local government. The Council's Code of Corporate Governance was rewritten at that time to set out how it would comply with the new guidance. Although there had been no subsequent changes to the guidance in the last year, an annual review of the Code had been completed in order to ensure it remained up-to-date and relevant to the Council.

The 7 key principles set out in the guidance which underpinned the governance of each local government organisation had not changed. However, how each of those principles would be evidenced in Rotherham had and was set out in the report submitted.

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

- Inclusion of Equalities and Human Rights Implications in accordance with the Council's reporting template
- Key decisions were included within the Forward Plan which was published 28 days before consideration by the Cabinet

Resolved:- (1) That the refreshed version of the Local Code of Corporate Governance be approved.

(2) That Local Code of Corporate Governance be signed off by the Chief Executive and Leader of the Council.

51. RISK MANAGEMENT POLICY AND GUIDE

Further to Minute No. 48 of the meeting held on 8th February, 2017, Simon Dennis, Corporate Risk Manager, submitted proposed changes to the Risk Policy and Strategy.

The changes to the Policy and Strategy were:-

- Removal of references to structures and processes that no longer existed
- Greater emphasis on high impact, hidden risks as well as a summary of the different types of risk that the Council might face
- Recognition of the "word based" version of the Risk Register that Directorates could now use instead of the excel version
- Inclusion of Appendix F setting out the numbering conventions that the Council applied to risk management

Discussion ensued with the following issues raised/clarified:-

- The Risk Champions Group met on a monthly basis where discussions included the wider changing climate and associated risks to the Council
- The Local Resilience Forum met to discuss the forthcoming Brexit

Resolved:- That the revised Risk Policy and Strategy be approved.

52. AUDIT COMMITTEE FORWARD PLAN

Consideration was given to the proposed forward work plan for the Audit Committee covering the period January, 2019 to November, 2019.

It was noted that the next edition of the forward work plan would include the updated schedule of reports provided by Grant Thornton.

Resolved:- That the Audit Committee forward work plan, now submitted, be supported and any amendments arising actioned in due course.

53. EXTERNAL AUDIT PROGRESS UPDATE

Consideration was given to a report submitted by Grant Thornton UK LLP providing details of the progress of the external audit of the Council's accounts and financial statements for the 2018/19 financial year, for the period ending 14th November, 2018.

Mr. T. De Zoysa (representatives of Grant Thornton UK LLP) presented the report and answered questions from Members.

It was noted that quarterly liaison meetings were to be held with the Chief Executive and the Strategic Director, Finance and Customer Services, throughout 2018/19 as well as a routine meeting with key members of the Senior Finance team on 3rd December to discuss key accounting and auditing issues impacting on the 2018/19 accounts.

Key Finance staff would be invited to Grant Thornton's annual accounts workshop in February, 2019.

A Local Authority Audit Committee Chairs and Members event was to be held in Leeds on 26th February, 2019.

Resolved:- That the report be received and its contents noted.

54. ITEMS FOR REFERRAL FOR SCRUTINY

There were no items for referral to Scrutiny.

55. APPOINTMENT OF INDEPENDENT MEMBER

(Mr. Bernard Coleman, Independent Member, left the room whilst this item was being discussed.)

David Webster, Head of Internal Audit, presented a report setting out the current arrangements with regard to the Audit Committee's Independent Member.

The Council had amended the Committee's Terms of Reference in 2015 to include the provision for the appointment of an Independent Member. On 9th December, 2015, Mr. Bernard Coleman had been appointed for a 3 year period.

The report set out 3 options for consideration as to how it wished to fill the vacancy that would arise on 9th December, 2018:-

Option 1 – commence a recruitment process for a new Independent Member

Option 2 – appoint the current Independent Member for a further 3 year term until December 2021

Option 3 – appoint the current Independent Member for a 12 month period to allow a recruitment process to take place.

Discussion ensued on the 3 options before the Committee.

Resolved:- (1) That Option 3 be approved by the Committee.

(2) That the Council, at its meeting on 5th December, be recommended to appoint Mr. Bernard Coleman as Independent Member of the Audit Committee until 31st December, 2019.

(Mr. Bernard Coleman, Independent Member, rejoined the meeting.)

56. EXCLUSION OF THE PRESS AND PUBLIC

Resolved:- That under Section 100(A) 4 of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve 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).

57. INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report presented by David Webster, Head of Internal Audit, which provided a summary of Internal Audit work completed during 1st September to 31st October, 2018, and the key issues that had arisen therefrom.

The completion of the audit plan had been impacted by 2 staff vacancies within the Audit Team. Recruitment was underway with 2 new starters expected to commence work in January 2019 and the secondments out of and into the team had become permanent.

Performance against key indicators had improved meeting the required level.

The updated plan was given in Appendix A and reasons for the deferral of specific reviews were set out in Appendix B of the report submitted along with proposed additions to the plan resulting from the consultation exercise and management requests. The inclusion of an audit on Eastwood Enforcement was discussed.

4 audits had been finalised since the last Audit Committee meeting one of which Partial Assurance; the remaining 3 all had Substantial or Reasonable Assurance.

Appendix D set out details of the unplanned responsive work completed since the last Audit Committee with Appendix E summarising Internal Audit's performance against a number of Indicators.

Appendix F showed the number of outstanding recommendations that had passed their original due date, age rated. For those over 120 days old the detail was then given, where they had been deferred the comment received from the Manager was given and where there was no change to the due date or comment, the Manager had not updated the system.

Discussion ensued on various matters contained within the agreed actions section of the report which included:-

- Setting of realistic completion dates by managers
- Adult Social Care Direct Payments
- Liquid Logic

Resolved:- (1) That the Internal Audit work undertaken since meetings of the Audit Committee, 1st September to 31st October, 2018, and the key issues arising therefrom be noted.

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

(3) That a progress report be submitted by Performance and Planning on Liquid Logic.

58. REGENERATION AND ENVIRONMENT'S DIRECTORATE RISK REGISTER

Consideration was given to a report, presented by Paul Woodcock, Acting Strategic Director, Regeneration and Environment, and Tom Smith, Assistant Director, Community Safety and Street Scene, providing details of the Risk Register and risk management activity within the Regeneration and Environment's Directorate.

Cabinet Members for Jobs and the Local Economy and Cleaner, Greener Communities, were also in attendance.

The Committee sought reassurance on the Risk Register and risk management activity in particular highlighting:-

- How the Register was maintained/monitored and at what frequency
- Involvement of the Cabinet Members for Jobs and the Local Economy, Waste Roads and Community Safety and Cleaner, Greener Communities
- How risks were included on and removed from the Register
- Anti-fraud activity in the Directorate

Discussion ensued with the following issues raised:-

- The Register currently had 17 risks listed 4 of which were also deemed Strategic risks
- Risks were regularly discussed and reviewed at the Directorate Leadership Team and escalated to the next strategic level for inclusion on the Risk Register where necessary
- The Risk Register was a standard item at the monthly meetings with the 3 Cabinet Members

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- 2 new risks added to the Register
- Update of Emergency Plan
- Planned approach to fraud
- Licensing Service as a whole
- Updating required with regard to members of staff and Commissioners
- Household Waste Collection Service
- Security of Council buildings

Resolved:- That the progress and current position in relation to risk management activity in the Regeneration and Environment Directorate, as detailed in the report now submitted, be noted.

59. DATE AND TIME OF NEXT MEETING

Resolved:- That a further meeting be held on Tuesday, 29th January, 2018, commencing at 2.00 p.m.