

AUDIT COMMITTEE
18th July, 2012

Present:- Councillor Sangster (in the Chair); Councillors Gilding and Kaye.

An apology for absence was received from Councillor Sims and Rashpal Khangura, KPMG

P8. MINUTES OF THE PREVIOUS MEETING HELD ON 30TH MAY, 2012.

The minutes of the previous meeting held on 30th May, 2012, were considered.

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

P9. LOCAL AUTHORITY GOVERNANCE - CONSULTATION.

The Director for Internal Audit and Asset Management reported that consultation was underway in relation to changes proposed to local authority governance. The proposed changes included: -

- Appointments to external auditors;
- Role of independent Chair and members;
- Requirement for independent auditor's panel.

The consultation's response deadline was 29th August, 2012.

P10. INTERNAL AUDIT ANNUAL REPORT 2011/12.

The Chief Auditor, Internal Audit and Asset Management, Resources Directorate, presented a report that outlined the findings of the Internal Audit Annual Report (2011/12).

The full Internal Audit Annual Report had been attached at Appendix one.

The Chartered Institute for Public Finance and Accountancy (CIPFA) required that an annual report of internal audit work be undertaken to examine the work that had been carried out during the previous year, including on mandatory areas.

The following areas contributed to Rotherham's Internal Audit Annual Report: -

- Review of the Council's Risk Registers;
- Review of revenue and capital budgets;
- Cumulative audit knowledge and experience of previous work undertaken;
- Review of key plans, reports and press coverage;
- Awareness of priorities identified by the Council's Strategic Directors and Service Directors;
- Knowledge of existing management and control environments, including information relating to any system changes;
- Professional judgement on the risk of fraud and error.

The report showed that audit activity was completed in approximately 84% of the planned auditable areas. This included all critical work on fundamental financial systems.

The Chief Auditor was able to confirm that the Internal Audit Department's coverage of the Council's activity was sufficient to be able to state that the Council's control environment was adequate and operated satisfactorily during 2011/12.

The Accounts and Audit Regulations [2011] required local authorities to undertake a review into the effectiveness of the internal audit that had taken place. The following were considered in making a judgement on the system's effectiveness: -

- Internal Audit Annual Report: -
 - Excellent performance seen against targets, particularly in the context of changes and staffing reductions to the Service.
- Customer satisfaction: -
 - Most recent survey of senior managers' views of the Service taken in 2010 reported an average of 5.35 on a scale of 1 = poor and 6 = excellent;
 - In 2011/12, 100% of managers of a Service area that had been audited rated the Service provided as good or excellent.
- External Audit (KPMG) review of Internal Audit: -
 - The KPMG review of January 2010 found that the Service was fully compliant with the CIPFA Code of Practice for Internal Audit;
 - In April 2012, following review of 2011/12 internal audit work, KPMG again confirmed their full reliance on the Service's work.

The Audit Committee's attention was drawn to sections 4.2, Internal Audit Resources, and 4.3, Benchmarking, which demonstrated a lean, cost effective and competitive Service.

One issue raised within the report related to a slight delay seen in the Sundry Debtors' System concerning delays at the formal legal stage. Internal Audit Management were already aware of this issue and had put control actions in place.

Discussion ensued and the following issues were raised: -

- A small number of the Planned Audits in 2011/12 were recorded as 'Awaiting Reply' at the 'number of recommendations agreed' stage. Were there sufficient safeguards to ensure this was followed up?
 - The Chief Auditor confirmed their confidence in the system in place; a follow-up process did exist. An escalation mechanism existed to refer persistent non-compliance. Since the report had been published, responses had been received in two of the cases.

- Opportunity to include the comments made by managers whose Services had undergone Audit work within the Annual Report to support the customer service section.
- Sundry Debtors' Department.
- Small Businesses.

Resolved: - (1) That the Internal Audit Annual Report for 2011/12 be noted, including the confirmation that the Council's control environment worked effectively during the year.

(2) That it be noted that there was adequate Internal Audit in place which operated effectively during 2011/12.

P11. ANNUAL FRAUD REPORT 2011/12.

Consideration was given to the report presented by the Director for Internal Audit and Asset Management outlining the work that had taken place in 2011/12 to prevent and detect fraud and corruption. The draft Annual Fraud Report (2011/12) demonstrated the Council's commitment towards minimising the risk of fraud and deterring potential fraudsters.

The full version of the Council's Annual Fraud Report (2011/12) had been submitted at Appendix A.

In 2011/12, the Council: -

- Investigated 1,393 potential fraudulent Housing and Council Tax Benefit cases (compared to 895 in 2010/11);
- Obtained 32 prosecutions (25 in 2010/11);
- Issued 108 formal cautions (107 in 2010/11);
- Issues 93 administrative penalties (84 in 2010/11);
- Recovered £2.52millions in overpayments in Benefits (compared to £2.45 millions in 2012/11).

It was noted that the incidence of fraud remained very low in overall terms, when the breadth of the Council's activities and spending were taken into account.

- There had been no incidences of general fraud (excluding Benefits) that exceeded £10,000 during 2011/12.

There were 9,036 Housing and Council Tax Benefit overpayments in 2011/12 (compared to 8,880 in 2010/11). This represented a small proportion of the total payments made during 2011/12. The vast majority were not fraudulent claims but as a result of changing circumstances that were notified after the change had occurred, necessitating a future change being required. The Council investigated 1,393 potentially suspicious overpayment charges,

The £2.52 millions of overpayments that were recovered would be used in delivering frontline services for the benefit of Rotherham residents.

The Director of Internal Audit and Asset Management reported that a press release would be prepared in relation to these successes.

Discussion ensued and the following issues were raised: -

- Anecdotal evidence existed that Rotherham was in-line with the national average on Benefit recovery;
- Work was ongoing to identify the profile of Benefit fraudsters.

Resolved: - (1) That the production of the Local Authority's Annual Fraud Report be supported.

(2) That appropriate publicity be produced to highlight the outcomes from the Council's anti-fraud activity and to act as a deterrent to fraud.

P12. STATEMENT OF ACCOUNTS 2011/12 (UNAUDITED).

Consideration was given to the report presented by the Chief Accountant and Finance Manager [Accounting Standards]. The report provided further information to the Audit Committee about the unaudited Financial Statements, prior to considering the audited Financial Statements in September, 2012.

The unaudited Financial Statements had been attached at Appendix 2. They were published on the Council's website on 29th June, 2012, thereby complying with the requirements of the Accounts and Audit Regulations (2011) for them to be published no later than 30th June.

The Financial Statements and related books, deeds, contracts, bills, vouchers and receipts were on deposit for public inspection over the period from 16th July, 2012, until 10th August, 2012.

The principal changes to the 2011/12 Statement of Accounts were: -

- Disaggregation of Cultural; Environment and Regulatory; and, Planning Service revenue expenditure in the Combined Income and Expenditure Statement into three separate expenditure headings in 2011/12 ;
- New disclosure on the cost of exit packages (disclosed in Note 14);
- Introduction of a new category of assets called heritage assets (described in Note 24);
- Clarity on the definition of related parties which had been used to reappraise the disclosure of Related Party Transactions in Note 17.

Part B of the submitted Appendix one showed how the Council had responded to the recommendation made by KPMG in 2010/11 on areas for improvement in closing down and preparing the 2011/12 Financial Statements.

Discussion ensued, and the following issues were raised: -

- Updates on various financial commitments and investments made by the Council were given;
- Availability of information.

Resolved: - (1) That the unaudited Financial Statements be received and the content of the document be noted.

(2) That it be noted that the Statutory Requirement to publish Statement of Accounts by no later than 30th June, was met with the publication of Rotherham's Statement of Accounts on 28th June, 2012.

P13. DATE AND TIME OF THE NEXT MEETING: -

Resolved: - That the next meeting of the Audit Committee take place on 26th September, 2012, commencing at 4.00 pm in the Rotherham Town Hall.