

**AUDIT COMMITTEE**  
**23rd July, 2014**

Present:- Councillor Sangster (in the Chair); Councillors Cowles, Kaye and Sharman.

Also in attendance was Councillor Wyatt, Cabinet Member for Finance.

An apology for absence was received from Councillor Sims.

**N1. MINUTES OF THE PREVIOUS MEETING**

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 23<sup>rd</sup> April, 2014.

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

**N2. COUNCIL BANKING ARRANGEMENTS**

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which, following the decision in November, 2013 by the Co-operative Bank to withdraw from the local authority sector, the Council needed to seek and appoint a new provider of banking services before the expiry of the current contract on 31st March, 2015.

An update was provided with the actions taken by officers to date in seeking a replacement supplier of banking services to the Council with confirmation that four tenders had been received and were currently being evaluated.

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

**N3. DRAFT ANNUAL GOVERNANCE STATEMENT 2013/14**

Consideration was given to a report presented by Colin Earl, Director of Audit and Asset Management, which outlined the Council's view of the application of good governance standards in Rotherham MBC.

The approach to the completion of the Statement had once again included the certification of statements of assurance by Cabinet Members and Senior Management. The process involved Cabinet Members and Senior Management recording key issues considered during the year in line with current good practice and a recommendation of the Audit Committee. It enabled the Council to show the significant issues it had faced during the course of the year and showed that the issues have been addressed effectively and without any significant weakness in governance.

The overall position was good, with the outstanding significant issues raised in last year's Statement now complete and no new issues arising this year.

Recommended practice required the Leader of the Council and the Chief Executive to sign the statement, prior to its publication with the Statement of Accounts, in September 2014.

Reference was also made to the structure of the Annual Governance Statement and its format, the process for its completion and how the Audit Committee would continue to review the effectiveness of governance arrangements during 2014/15.

Discussion ensued on the format for picking up areas of concern, particularly around budget discussions, and the routes for discussions and challenges.

Confirmation of Rotherham's robust arrangements were endorsed by KPMG.

Resolved:- (1) That the 2013/14 draft Annual Governance Statement be approved.

(2) That the requirement for the Leader and the Chief Executive to sign the statement prior to the publication of the Council's accounts be noted.

#### **N4. ANNUAL FRAUD REPORT 2013/14**

Consideration was given to a report presented by Marc Bicknell, Chief Auditor, which brought together in one document a summary of the work which had taken place in the period to prevent, detect and investigate allegations of fraud and corruption.

The Council had a zero-tolerance to fraud and corruption. It was proposed to publish the Annual Fraud Report to help the Council demonstrate this commitment and act as a deterrent to further fraud.

The purpose of the report, therefore, was to raise awareness and inform stakeholders of the work the Council undertook to manage the risk of fraud and corruption.

It should be noted that the incidence of general fraud (i.e. fraud cases excluding Housing Benefits and Council Tax Reduction Scheme) remained very low in overall terms, taking into account the Council's activities and spending. General fraud cases exceeding £10,000 were required to be reported to the Audit Commission and there were none of these in 2013/14.

There continued, however, to be a significant amount of attempted and actual Housing and Council Tax Benefits fraud committed against the Council. The Council investigated 1,060 potentially fraudulent cases during 2013/14, obtained 37 prosecutions and issued 96 cautions and penalties.

Priorities for 2014/15 were to:-

- Update our fraud risk assessment to ensure we continue to focus resources on potentially vulnerable areas.
- Carry out specific fraud related reviews throughout the Council, including payments to the independent sector for adult social care, direct payments, and reviews of major contractors.
- Keep abreast of national developments and ensure the Council continues to comply with current best practice.
- Continue to participate in the National Fraud Initiative.
- Provide training, advice and guidance.
- Publicise the consequences of committing fraud e.g. dismissal, prosecution etc. via suitable media sources.
- Also assess the scope for proactive counter-fraud activity through local data matching exercises.
- Consider the business case for establishing a corporate 'Counter-Fraud' Function/Team

Publication of the Annual Fraud Report was proposed to help the Council demonstrate this commitment and act as a deterrent to further fraud.

Discussion ensued on the role of Internal Audit and the referral of certain matters to the Inland Revenue, which it was confirmed was an avenue that was open.

The Committee noted that Rotherham's detection rates were higher, but commended those involved for their success.

Resolved:- (1) That the production of the Annual Fraud Report 2013/14 be supported.

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

## **N5. AUDIT COMMISSION FRAUD SURVEY: KPMG ANALYSIS**

Consideration was given to a report presented by Marc Bicknell, Chief Auditor, which outlined the findings from a summary of comparative 2013/14 fraud activity, produced by KPMG.

Rotherham had the highest level of detected fraud amongst the authorities submitting data, primarily due to its exceptional achievement in identifying and recovering council tax single persons' discount overpayments.

KPMG gave a short presentation of its analysis, which showed Rotherham Council's position on a number of key indicators relative to other metropolitan borough councils.

Overall, the analysis demonstrated Rotherham took a strong line against fraud. The main headlines from the presentation were:-

- Rotherham MBC achieved the highest overall level of detected fraud cases and 3rd highest value (slide 7).
- The main reason for the overall position above is the Council's exceptionally high relative level of detected council tax discounts fraud, where RMBC achieves substantially more than any other metropolitan authority (slide 9).
- RMBC detected an average number and value of other Benefits Fraud (slide 8).
- RMBC detected no social housing fraud (tenancy fraud) (slide 10).
- RMBC detected 13 blue badge frauds in the year, which is equivalent to the average number of cases per Northern Metropolitan Councils (slide 13).

During 2014/15 Internal Audit planned to carry out selected further tests in fraud risk areas to assess the likelihood and extent of fraud and, where appropriate, take any follow up action.

The Committee were satisfied that the performance checks and arrangements in place were robust as there had been no insurance cases as part of the fraud survey.

It was also noted that KPMG had a significant share of the market as External Auditors to Local Authorities which supported the benchmarking of data and performance.

Reference was also made to the proposals by the Department for Work and Pensions who were to create a Single Fraud Investigation Service. This would draw in Local Authority staff currently engaged on benefits fraud investigation activity, which could have an impact on the Council's fraud investigation and detection resources.

Resolved:- (1) That the KPMG be thanked for their informative presentation.

(2) That the analysis produced by KPMG be noted.

**N6. INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT CHARTER**

Consideration was given to a report presented by Marc Bicknell, Chief Auditor which had been produced in compliance with the requirement of the United Kingdom Public Sector Internal Audit Standards that replaced the CIPFA Code of Practice for Internal Audit 2006.

The Internal Audit Strategy had been reviewed in conjunction with the production of the Internal Audit Charter.

This report enabled the Director of Audit and Asset Management and the Audit Committee to satisfy their respective responsibility for presentation and approval of the Charter and Strategy documents, which were by their nature lengthy and detailed documents.

The UKPSIAS required an annual internal review and a five year external review of Internal Audit compliance with the Standards, to be reported to the Audit Committee – the results of these reviews would be reported to the Audit Committee in due course.

Discussion ensued on the production of the Annual Audit Plan, which provided the detail and timetable for work going forward, and information provided on the budget expenditure for the Internal Audit Service.

Resolved:- (1) That the Internal Audit Strategy (attached at Appendix A) be supported.

(2) That the Internal Audit Charter (attached at Appendix B) be supported.

**N7. KPMG INTERIM AUDIT 2013/14**

Consideration was given to a report presented by Simon Tompkins, Finance Manager, referred to the outcomes from KPMG's 2013/14 planning and interim audit work. The outcome of which was a very positive one.

KPMG's 2013/14 External Audit Plan set out the scope of the work to be carried out at the planning and interim audit stages of their audit.

The planning work included a review of the Council's overall control environment

The interim audit included:-

- Evaluating and testing controls over the Council's key financial systems.
- A review of the work of the Council's internal audit function in relation to these controls.

- A review of the accounts production process.
- A review of progress on areas of particular audit focus identified in KPMG's 2013/14 External Audit Plan

The areas of particular audit focus referred to in the External Audit Plan were:-

- The estimated costs associated with the orderly and managed closure of Digital Region Ltd
- The transition to the new general ledger structure in July 2013
- The data and assumptions underpinning the Pension valuation carried out at 31 March 2014 for accounts purposes

KPMG concluded that there were no significant matters that needed to be reported to Audit Committee based on the work carried out and, as a consequence, did not consider it necessary to issue a formal report. A letter summarising audit progress was, therefore, issued.

Resolved:- That the positive findings presented in KPMG's interim audit letter be endorsed.

#### **N8. STATEMENT OF ACCOUNTS 2013/14**

Further to Minute No. 34 of the meeting of the Audit Committee held on 23<sup>rd</sup> April, 2014 consideration was given to a report presented by Simon Tompkins, Finance Manager, which set out the main changes to the Statement of Accounts in 2013/14.

This report summarised the key disclosures contained in the unaudited 2013/14 Statement of Accounts published on 30th June, 2014 to give an opportunity to consider them before formal approval at the meeting on 17<sup>th</sup> September 2014.

The statutory deadline for the audited Statement of Accounts to be published was 30th September, 2014.

The External Auditor did not make any formal recommendations in relation to the audit of the 2012/13 Statement of Accounts. There were, therefore, no issues for follow up with regard to the preparation of the 2013/14 accounts.

Reference was also made to the briefing note provided with the agenda papers which provided an important introduction to the Statement of Accounts as it brought attention to the Council's overall financial performance in the year, its financial position at the year end, significant matters reported in the Statement of Accounts and the Council's future financial prospects.

The Committee welcomed the explanatory briefing note and sought clarification as to where the Icelandic Bank settlement was identified and the current position.

Central Government and CIPFA's recognition of the need to streamline the accounts and how this would be taken in the future was also noted.

Resolved:- That the unaudited 2013/14 Statement of Accounts be received and the compliance with the statutory requirement that they be published no later than 30<sup>th</sup> September, 2014 be noted.

**N9. DATE AND TIME OF THE NEXT MEETING**

Resolved:- That the next meeting of the Audit Committee take place on Wednesday, 17<sup>th</sup> September, 2014 at 4.00 p.m.