

**AUDIT COMMITTEE**  
**17th September, 2014**

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

Rashpal Khangura, Trevor Rees and Amy Warner, KPMG, were also in attendance.

Apologies for absence were received from Councillor Sangster.

**N10. 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> July, 2014.

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

**N11. AUDIT AND INSPECTION RECOMMENDATIONS UPDATE**

Consideration was given to a report presented by Michelle Hill, Performance and Improvement Officer, which summarised the progress against recommendations from across all key external audits and inspections of Council services.

It was intended that the report would provide a high level analysis of progress with a particular focus on outstanding recommendations and new inspections since the date of the last report (April, 2014). A summary of these were detailed within the table in Appendix A, but in summary:-

- Since the last report there have been 1 non-compliant Care Quality Commission inspect of the Netherfield Court Intermediate Care Service in July, 2014.
- There was currently 1 action plan relating to Inspection and audit recommendations which was still “active” in the Authority (i.e. contained outstanding recommendations which were still relevant).
- Across the action plans 12 recommendations had been completed and 1 remained outstanding.

The Audit Committee also noted that progress against recommendations was good with clear actions identified and routes to monitor in progress in place.

A small number of timescales for individual improvement actions had slipped, however, all plans were on track to be completed and were reviewed regularly by Directorates.

It was essential that in this time of uncertainty and in the absence of any national performance regime (other than Children and Adult Services), that the Authority continued to be able to demonstrate continuous improvement and self-regulation through the implementation of any previously recommended actions.

It was noted that since the report had been written, the publication of the Jay Report had resulted in a number of investigations being instigated. Recent notification had been received of an Ofsted inspection under the Single Inspection Framework, a thematic inspection related to CSE, an inspection of Rotherham care homes and a review of the Authority's current governance arrangements.

Resolved:- (1) That the progress achieved against outstanding actions be noted.

(2) That any further actions be advised as necessary.

**N12. ANNUAL TREASURY MANAGEMENT REPORT AND ACTUAL PRUDENTIAL INDICATORS 2013/14**

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 2013/14 financial year and also a mid-year report representing a mid-year review of treasury activity.

The annual treasury management report was the final treasury report for 2013/14. Its purpose was to review the treasury activity for 2013/14 against the strategy agreed at the start of the year.

The report also covered the actual Prudential Indicators for 2013/14 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, 2013 and the level of the Council's external debt and investments.

It was noted that Capita would be in attendance at the next meeting to provide training on Treasury Management.

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

**N13. BANKING SERVICES**

Further to Minute No. N2 of the meeting held on 23<sup>rd</sup> July, 2014, Derek Gaffney, Chief Accountant, presented a further update on the outcome of the tender evaluation for the supply of Banking Services.

The former Cabinet Member for Finance (Minute No. 26 of 29<sup>th</sup> August, 2014 refers) had approved the appointment of the National Westminster Bank plc for a period of 5 years, with the option to extend for a further 3 years. Implementation would commence during September to ensure the Council could meet the Co-operative Bank's desired outcome for an early exit from the current contract by the end of December, 2014.

Resolved:- That the report be noted.

**N14. REVIEW OF PROGRESS AGAINST THE INTERNAL AUDIT PLAN FOR THE FOUR MONTHS ENDING 31ST JULY 2014**

Consideration was given to a report presented by Marc Bicknell, Chief Auditor, which provided a summary of Internal Audit work and performance for the 4 months ending 31st July, 2014.

Progress on the Audit Plan was slightly below target for various reasons including voluntary severance, maternity leave, additional responsive work and the extended scope of some pieces of work. However, based upon the work that had been undertaken in the period, the Council's control environment was adequate and operating satisfactorily.

Performance on most Indicators was close to or on target and anticipated to be achieved by the year end. Exceptions at the current time were in relation to 'audits completed within planned time' and 'percentage of Audit Plan completed'. Audit findings in most areas indicated that satisfactory control arrangements were in place and testing confirmed that the controls were operating effectively during the period under review. Nevertheless, there were opportunities to strengthen arrangements in some areas.

Reference was also made to the audit reports and recommendations from planned work which showed there were opportunities to strengthen arrangements in some areas.

- CYPS: Contract for School Improvement activity – a number of recommendations had been made to improve governance arrangements which had been agreed with CYPS Management
- EDS: Highways Final Accounts Arrangements – recommendations made to ensure robust 'open book' checks on costs were implemented going forward

Following the renewal of the 2 year contract to provide management of Doncaster MBC's Internal Audit Service, from April, 2013 to March, 2015, close work between the 2 Authorities continued and currently generated £35,000 annual income to Rotherham.

Recruitment was also to commence for an Audit Apprentice for 12 months to help meet the priority of providing quality education and ensuring that people had opportunities to improve skills, learn and get a job.

Regular progress meetings took place with KPMG regarding the Plan.

Resolved:- (1) That the performance of the Internal Audit Service during the period be noted.

(2) That the key issues arising from the work done in the period be noted.

## **N15. CORPORATE RISK REGISTER**

Consideration was given to a report presented by Colin Earl, Director of Audit and Asset Management, which provided details of the current Corporate Risk Register summary. The summary showed the risks associated with the Council's most significant priorities and projects and actions being taken to mitigate these risks.

The impact of the publication of the Independent Inquiry into Child Sexual Exploitation had created a major risk to the Council potentially in relation to reputation, public confidence, service disruption, financial claim and morale.

The overall reputation of the Council and the Borough had also been affected and consequently the risk rating for the item had increased.

The top risks requiring close monitoring were:-

- Managing Government budget reductions – unable to maintain key services due to budgetary limits
- Report into Child Sexual Exploitation
- Welfare Reforms
- Delivering effective Children's Services within budget
- Economic Growth

2 risks had been removed from the Register – failure to use property assets to support growth and closure of the Digital Region Limited project.

2 new risks had been added – implementation of the Care Act and Broadband Delivery UK.

Resolved:- (1) That the contents of the Corporate Risk Register summary attached at Appendix A be noted.

(2) That the current assessment of the Council's top corporate risks be approved.

(3) That any further risks or opportunities that should be added to the risk register be identified.

#### **N16. KPMG COMPARISON OF CORPORATE RISKS**

Consideration was given to a report submitted by Rashpal Khangura, KPMG, which was a summary of an analysis of risk registers across various local authorities.

It should be noted that the report was produced prior to the public of the independent report into Child Sexual Exploitation and the subsequent inclusion of the issue on Rotherham's Risk Register.

There were a small number of items in other local authorities' registers that did not appear in Rotherham's Register:-

- Business continuity/disaster recovery/emergency planning  
Corporate arrangements were regarded as well established, efficient and effective with no mitigate risk ranking that would require inclusion on Rotherham's register
- Partnership arrangements/governance  
Not regarded as a corporate level risk although the assessment would be updated when a refresh was completed
- Data loss/information security/information governance  
Performance was generally good and not regarded as a corporate risk
- Staff morale  
Not regarded as a corporate risk after taking into account mitigating actions
- Health and safety compliance  
The Council had a positive track record on Health and Safety management. There had been no recent on-site investigations by the HSE
- Delivering major projects  
Any projects considered significant from a corporate perspective were included in the corporate register
- Delivering organisational change  
Any change requirements associated with major projects were incorporated into the projects

Reports would be submitted to the Committee on the outcomes of refreshes.

It was felt that, in light of recent events, the issues of staff moral and health and safety compliance should be revisited.

Resolved:- (1) That the report be noted.

(2) That the comments made on risks included in other local authorities registers but not in Rotherham's be noted.

(3) That the actions proposed to update various assessments, taking into account recent changes, be approved.

(4) That staff morale and health and safety compliance be reassessed for possible inclusion on the Risk Register.

#### **N17. ANNUAL GOVERNANCE STATEMENT 2013/14**

Further to Minute No. N3 of 23<sup>rd</sup> July, 2014, Colin Earl, Director of Audit and Asset Management, re-submitted the 2013/14 Annual Governance Statement which highlighted an addition making reference to the independent report into Child Sexual Exploitation published on 26<sup>th</sup> August, 2014.

The Statement was required to reflect any significant governance issues arising up to the point it was signed which should be as close to the same day as the signing of the accounts at the end of the external audit of the accounts i.e. September, therefore, a report of such significance as the Alex Jay report must be reflected.

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

(2) That the requirement for the Leader of the Council and the Chief Executive to sign the Statement, prior to 17<sup>th</sup> September, 2014, be noted.

#### **N18. STATEMENT OF ACCOUNTS 2013/14**

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 2013/14 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 2013/14.

The unaudited Statement of Accounts had now been subject to audit and any necessary changes discussed and agreed between the Section 151 Officer and the Auditor. The Statement of Accounts, in its revised form, now required approval by Members prior to publication before the end of September, 2014.

The Auditor's ISA 260 report set out in detail the outcomes from the audit including any changes made to the unaudited Statement of Accounts 2013/14.

Overall, the ISA260 report was an extremely positive one and considered the accounts to be of a high quality. Only a few minor presentational changes were identified all of which had been agreed with the external auditor and corrected in the final version of the Statement of Accounts.

None of the presentational changes made affect the financial performance or financial position of the Council reported in the unaudited Statement of Accounts.

In addition, the report confirmed that:-

- Controls over key financial systems were sound.
- The audit process was fully supported through good quality working papers and timely responses to audit queries.
- There were no other matters which needed to be reported to Audit Committee.

As a result of these positive assurances, KPMG anticipated being able to give an unqualified opinion by 30th September that the Council's Statement of Accounts provides a true and fair view of its financial position at 31st March, 2014 and its income and expenditure for the year then ended (see page 3 of the report).

These findings demonstrated that the Council had been able to sustain in 2013/14 the high standard of financial reporting that had been achieved in recent years since International Financial Reporting Standards (IFRS) were adopted.

This had been supported by the developments that had and were continuing to take place to facilitate financial reporting namely the introduction of a new general ledger structure during the course of the year and improvements to year end closure procedures.

It also reflected the benefit of officers working proactively with External Audit from an early stage in the audit to discuss and seek agreement on significant/complex accounting issues and areas of audit focus.

However, since the production of the unaudited financial statements, the publication of the independent report into Child Sexual Exploitation had resulted in an additional contingency note being added to disclose the possible liability that may arise from claims against the Council.

KPMG also informed the Committee that they were at present considering the impact of the independent report on their assessment of whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the so called Value For Money or VFM conclusion). As a consequence KPMG were unable at this stage to issue their VFM conclusion.

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 2013/14 attached at Appendix 2 be approved.

(3) That the Letter of Management Representations attached at Appendix 3 be approved.