

**AUDIT COMMITTEE  
19th November, 2014**

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

**N19. MINUTES OF THE PREVIOUS MEETING HELD ON 17TH SEPTEMBER, 2014**

The minutes of the previous meeting of the Audit Committee held on 17<sup>th</sup> September, 2014, were discussed.

A matters arising update was provided in relation to Minute No. N13 (Banking Services).

Resolved: - That the minutes of the previous meeting be accepted as a correct record.

**N20. TREASURY MANAGEMENT TRAINING BY CAPITA**

Richard Dunlop, Capita Treasury Management, delivered a training presentation that outlined the following matters: -

- Simple principles of the treasury management of public money;
- CIPFA Code of Practice;
  - The economy;
  - GDP Growth;
  - CPI inflation and UK wage growth;
  - National debt;
  - UK interest rate forecast;
- Investment rules and regulations – treasury/capital;
- Governance and decision making / delegated powers;
- Anticipation of Treasury Management;
- Capital Finance requirement – prudential indicators;
  - Borrowing starting position;
  - Future borrowing needs;
  - Cash/investment position;
- Current treasury position;
- Expected treasury position;
- Legal requirements of investments;
  - Activity constraints and where Member decisions were required;
  - Security vs Liquidity vs Yield.

Councillor Sangster thanked Richard for the informative presentation that he gave and his contribution to the discussion.

Resolved: - That the training information be noted.

**N21. MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING REPORT 2014/15**

Consideration was given to the report presented by the Chief Accountant (Financial Services, Resources Directorate) that outlined a mid-year treasury review, in addition to the forward looking annual treasury strategy and a backward looking annual treasury report.

The report showed that the Council was currently under-borrowed. The delay in borrowing reduces the cost of carrying the borrowed monies when yields on investments are low relative to borrowing rates. A 'call' account with the top-rated bank Handelsbanken had been opened. This bank met the Council's highest investment criteria and any deposits in the short-term would be limited to a maximum period of one-month and a maximum amount of £1m.

The Council was on target to meet Capital finance responsibilities.

The Chief Accountant would present this report to the Cabinet and full Council.

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

(2) That the report be referred to Cabinet to consider recommending that Council approve the changes to the 2014/2015 prudential indicators.

**N22. EXTERNAL AUDITOR'S INTERIM ANNUAL AUDIT LETTER 2013/14**

Consideration was given to the External Auditor's Interim Annual Audit Letter relating to 2013/2014. The letter gave a view on the Audit of 2013/2014 accounts, a Value For money Conclusion 2013/14 and any Other Matters the external auditor was required to communicate.

Investigation was continuing into the Value for Money element as the External Auditor was required to consider the outcomes/s of inspection work commissioned following the independent inquiry into child sexual exploitation.

The main headlines from the Interim Annual Audit Letter in relation to the accounts and other audit responsibilities included: -

- The Council's financial statements were produced to a good standard without the need for audit adjustment and were given an unqualified audit opinion before the statutory deadline of 30<sup>th</sup> September. KPMG LLP complemented officers on the strong financial reporting process and in providing working papers to the expected standard and timely responses to audit queries;
- The Annual Governance Statement as amended at September's Audit Committee, was compliant with the CIPFA/SOLACE framework for delivering good governance in local government;

- There were no high priority recommendations or other matters that needed to be brought to the attention of the Audit Committee;
- In relation to the Value for Money Conclusion, KPMG were still to reach a conclusion on whether the Council had in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources;
- KPMG were satisfied that the Council's medium term financial planning was sufficiently robust to enable it manage its financial risks and to continue to provide services effectively in the face of continuing funding reductions. However, they needed to take into consideration the scope and outcomes from the inspection work commissioned following the publication of the independent inquiry into child sexual exploitation before coming to their view.

Discussion followed and the following points were raised: -

- The annual audit fee for 2013/2014 could increase if External Audit found it necessary to carry out further work to address the additional risks arising from the Jay report and inspection outcomes to arrive at their Value for Money conclusion;
- Councillor Sharman discussed the role of Audit, and External Audit, in ensuring that the Council could meet its functions and had an appropriate financial strategy in place to meet its requirements; including consideration of the long-term impact of services that were cut. External Audit replied that it was not their role to comment on policy matters only to consider whether resources were allocated in a manner consistent with the achievement of the Council's objectives

Resolved: - That the Interim Annual Audit Letter presented to the Council by its external auditors, KPMG LLP, be noted.

## **N23. NATIONAL FRAUD INITIATIVE**

Consideration was given to the report presented by the Chief Auditor (Audit and Asset Management, Environment and Development Services Directorate) that outlined the results of the 2012/2013 exercise of the National Fraud Initiative (NFI) that Rotherham had participated in.

Overall, Rotherham's recovery rate through the NFI was lowering. This was due to: -

- The strong control environment in place that reduced the Local Authority's vulnerability to fraud;
- Further to this the Council also took part in a separate data matching exercise with regards to Council Tax and was performed externally by a company called 'Datatank'. The total debit applied to Council Tax accounts following this exercise in 2012/13 was £563k, with an overall recovery rate of 97.5%;

- As the NFI exercise lasted for two-years, the longer the time since the fraud had taken place to when it was detected, the harder recovery of funds was;
- Rotherham had implemented a range of preventative measures over time and, as a result, lower levels of fraud were identified going forward as more robust control processes were applied to prevent fraud in the first place.

The Director for Financial Services outlined future developments planned by the Department for Work and Pensions in setting up a single fraud investigatory service in December, 2015. This would cause the Audit Commission to cease.

The Local Authority was evaluating tenders relating to a project to assess whether the Authority was maximising business rates. Discussion followed on this matter. It was noted that Rotherham was in the top quartile performance for collection of Business Rates.

Resolved: - (1) That "The National Fraud Initiative 2012/13" report be noted.

(2) That the Council's participation in NFI exercises as part of its arrangements for managing the risk of fraud be continued.

#### **N24. REVIEW OF PROGRESS AGAINST THE INTERNAL AUDIT PLAN FOR THE SIX MONTHS ENDING 30TH SEPTEMBER 2014**

The report presented by the Chief Auditor that outlined progress against the Internal Audit Plan for the six-months ending 30<sup>th</sup> September, 2014, was noted.

Progress against the Audit Plan remained slightly below target at the end of September, 2014, due to a reduced headcount in the Service and the extended scope on some pieces of work. Additionally, following the publication of the Jay Report in August, the Service had examined the issues highlighted by it, including carrying out a specific piece of work looking at the Council's Home to School Transport contracts and assertions relating to the removal of files from the Risky Business project.

Appendix A showed the audit reports that had been issued during the first six- months of the financial year. Audit findings in most areas indicated that satisfactory control arrangements were in place and testing confirmed that these controls were operating effectively during the period under review. Audit reports demonstrated opportunities to strengthen arrangements in some areas.

To September, 2014, Internal Audit work identified three areas that necessitated an 'inadequate' opinion: -

- CYPS: Contract for School Improvement Activity;
- EDS: Highways Final Accounts Arrangements;
- EDS: Blue Badge Scheme.

Discussion followed and Councillor Kaye asked about the implementation of the recommendations in relation to Rotherham's Blue Badge Scheme. Certain recommendations had not been implemented. The Chief Auditor explained that the recommendation had arisen out of auditing the process applicants followed to be awarded a blue badge. The Audit Committee requested that the Service Director be called to a future meeting to account for the implementation of recommendations.

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

(3) That the Service Director for the Blue Badge Scheme be called to a future meeting of the Audit Committee to account for the implementation of recommendations.

#### **N25. RISKS AND ISSUES ARISING FROM THE JAY REPORT INTO CHILD SEXUAL EXPLOITATION IN ROTHERHAM 1997 - 2013**

Consideration was given to the report presented by the Chief Auditor that outlined the background and provided an update arising from the Jay Report into Child Sexual Exploitation.

The report outlined the Audit Committee's responsibilities to receive regular updates on progress against the fifteen inspection recommendations. This would enable the Committee to fulfil its terms of reference with regard to the Council's response to the risks and issues raised. It would also enable the Committee to ask for further information in any particular areas, particularly where progress might not be as required.

Different layers of the organisation were looking at the recommendations and response to the Jay Report by both Officers and the Executive.

The Audit Committee would receive twice yearly updates on the progress against inspection recommendations and the management of risk. Specific issues requiring more immediate attention would be presented as they arose.

Internal Audit would focus on a range of issues highlighted in the Jay Report: -

- Taxi licensing arrangements;
- Home to school transport;
- Data protection and security;

- Review of the whistle blowing process - adequacy and effectiveness of arrangements for, and the management of the policy and procedures for the whistle blowing process;
- Adequacy of performance management arrangements including monitoring, supervision and the provision of sound information systems.

Resolved: - (1) That the implications of the Jay Report, recent Ofsted inspections and other related reviews on the work of Internal Audit and the Audit Committee be noted.

(2) That further regular reports on progress in relation to the work identified be presented to the Audit Committee on a twice yearly basis, or more regularly if matters arose.

**N26. ANY OTHER BUSINESS**

It was noted that Audit Commission Institute invitations was shortly be issued and members of the Audit Committee were urged to attend.

**N27. DATE AND TIME OF THE NEXT MEETING: -**

Resolved: - That the next meeting of the Audit Committee take place on Wednesday 21<sup>st</sup> January, 2015, to start at 4.00 p.m. in the Rotherham Town Hall.