

**AUDIT COMMITTEE**  
**Tuesday, 5th May, 2015**

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

Apologies for absence:- Apologies were received from Councillors Rushforth and Sharman.

**C38. MINUTES OF THE PREVIOUS MEETING HELD ON 11TH MARCH, 2015**

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 11<sup>th</sup> March, 2015.

Reference was made to Minute No. N35, Third Paragraph (External Auditor's Value for Money Conclusion 2013/14) indicating findings and conclusions of three inspections. This should refer to two inspections only – Professor Jay and Ofsted.

Paragraph 5 of the same minute also referred to a “deadline to informally produce the Value for Money conclusion”. The word “informally” should be deleted.

In terms of Minute No. N36 (Closure of Accounts 2014-15) Simon Tompkins, Finance Manager, suggested an addition to the minute as the change gave added emphasis in view of the fact that the Council's Treasury Strategy, which included the approach to determining Minimum Revenue Provision, be a matter reserved for full Council. This was at KPMG's request and would include the inclusion of the following text after the fifth paragraph:-

“Members were asked in approving the minutes to have particular regard to the amendment to accounting Policy 15 in Appendix 2 to the report which set out the basis on which charges were to be made to revenue for the repayment of debt which had been used to finance capital expenditure. This was known as the Minimum Revenue Provision or MRP.

Capital financing regulations and related statutory guidance allowed a range of options for determining Minimum Revenue Provision. The broad aim was that a prudent provision should be made which mirrors the benefit the Council gets from using the asset to deliver services over the life of the asset.

The accounting policy had been clarified in 2014/15 to simply state that prudent provision was made having regard to relevant statutory requirements and related guidance on MRP issued by DCLG. It no longer prescribed which options were to be employed to different types of debt in any given year. This afforded flexibility in how the policy was applied in practice in the face of changing circumstances.

The amendment to Accounting Policy 15 was being emphasised to Members in view of the fact that approval of the Council's Treasury Strategy, which includes the approach to determining Minimum Revenue Provision, was a matter reserved for full Council."

Resolved:- That the minutes of the previous meeting be approved as a correct record for signature by the Chairman, subject to the alterations/inclusions referred to above.

### **C39. INTERNAL AUDIT ANNUAL REPORT 2014/15**

Consideration was given to a report presented by Colin Earl, Director of Transformation, which provided information on the role of Internal Audit, the work undertaken by the Service during the 2014/15 financial year and his overall opinion, as Director of Transformation, on the Council's control environment.

Based upon the audit work undertaken during 2014/15 and taking into account the findings of key external reviews: KPMG, Professor Jay Report, Corporate Governance Inspection and Ofsted Inspection, the Director of Transformation concluded that the Council's control environment for 2014/15 was inadequate and did not operate satisfactorily during the year.

Particular reference was made to the basis of the opinion, which was affected by a number of factors, some of which were exceptional. However, sufficient work was undertaken to enable a view on the Council's control environment to be formed, which also took account of other assessments of the Council's performance and its controls.

The control environment was found to be inadequate in six areas:

- Contract for School Improvement Activity.
- Children's Home.
- Transport for Looked After Children.
- Highways Contracts.
- Blue Badge Scheme.
- Taxi Licensing.

A summary of the audit work undertaken during the year was set out in the report submitted.

In addition, Internal Audit also provided audit services on a fee earning basis to five academy schools; since these are separate legal entities to the Council, there is no impact on the overall opinion of the Council's control environment.

Clarification was sought on control improvements to the blue badge scheme and the work taking place with management on applicant assessments. A further report on progress would be reported to the July

2015 meeting of the Audit Committee.

In terms of highways contracts, it was noted that a more robust process for the checking of costs incurred during the currency of contracts and at final account stage was being implemented to avoid errors in the future.

With regards to transport for looked after children a number of recommendations had been made to strengthen the arrangements, all of which had been accepted by management.

A further period of consultation had also been launched on the Licensing Policy in relation to taxi licensing, with a view to a more robust process being implemented. Implementation of the new Policy would have a phased approach for existing taxi drivers and operators.

It was suggested that a robust approach to taxi licensing should be adopted nationally and discussions had taken place with representatives from the Home Office for this to be considered further. Considerable interest had also been shown by Chief Executives of the other South Yorkshire Local Authorities and it was envisaged that some seminar with colleagues would be devised to share information once the Policy had been agreed.

Resolved:- That the Internal Audit Annual Report for 2014/15, including the opinion that the Council's control environment was inadequate and did not operate satisfactorily during the year, be noted.

#### **C40. EXTERNAL AUDITOR'S FINAL ANNUAL AUDIT LETTER 2013/14**

Consideration was given to a report presented by Stuart Booth, Strategic Director of Resources and Transformation, which reported receipt of the final annual audit letter from KPMG.

The Interim Annual Audit Letter 2013/14 presented to Audit Committee on 19th November, 2014 informed Members that KPMG had not been able to issue their Value for Money Conclusion pending consideration of the scope and outcomes from the inspection work commissioned following the independent inquiry into child sexual exploitation.

Subsequent to this, KPMG have completed their work and reported their Value for Money Conclusion to Audit Committee on 11th March, 2015.

The adverse conclusion they reached that the Council has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March, 2014 was reflected in the Final Annual Audit Letter.

The remaining headline messages contained in the Final Annual Audit Letter were unchanged from the Interim.

It was worth noting that, although an adverse Value for Money Conclusion had been issued, KPMG have not felt it necessary to issue any high priority recommendations relating to Value for Money as the Council was in the process of developing an improvement plan to address the weaknesses identified in the corporate governance inspection.

Representatives from KPMG confirmed the initial audit planning process identified two significant risks to the Value for Money conclusion, the closure of Digital Region Limited and the Authority's savings plans for reductions in savings.

In addition, in November, 2014, OFSTED published its judgement that Children's Services were overall inadequate. This, therefore, questioned the Authority's arrangements to deliver quality services for children. In February, 2015, the Report of the Inspection of Rotherham Metropolitan Borough Council was published and highlighted significant governance weaknesses. Specifically it reported the Authority was not fit for purpose and failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions.

In the context of KPMG's Value for Money conclusion, the significant weaknesses identified in the Authority's arrangements meant they were unable to be satisfied the Authority had arrangements to secure economic, efficient and effective use of resources and, therefore, issued an adverse conclusion on 26th March, 2015.

Commissioner Manzie confirmed that strategic arrangements were now in place to look at the conclusions in more detail and would form part of the overall framework in the Improvement Plan.

Resolved:- That the Final Annual Audit Letter 2013/14 be approved for publication on the Council's website.

#### **C41. INTERNAL AUDIT PLAN 2015/16**

Consideration was given to a report presented by Marc Bicknell, Chief Internal Auditor, which outlined the Council's Internal Audit Plan for 2015/16.

Significant changes had been made in the approach to audit planning. These have been reflected in the resulting audit plan, which now more fully reflects a risk based assessment using the Council's risk registers, budget documentation and other key plans. The Plan also reflects discussions with Directors and the Strategic Leadership Team on their views of key risks and areas for audit coverage.

The programme also included coverage in many areas criticised in the Professor Jay, Ofsted and Corporate Governance Inspection reports.

As well as a full refresh of the 'audit universe' and a thorough risk

assessment of the Council's activities, the Audit Plan had also taken into account:-

- Financial information from budgets and key financial systems
- Review of key plans and policies
- Consultation with the Council's Directors and Strategic Leadership Team
- Known major upcoming changes in key systems and governance arrangements
- Views on the risk of fraud and error
- Cumulative audit knowledge and experience
- External requirements (including requirements to audit and sign off grant claims for the Government)

A summary of the approach to the development of the Audit Plan for 2015/16 was provided, which would be delivered in accordance with the Internal Audit Charter. The Internal Audit Plan was focused on the achievement of the Council's key objectives and priorities and the risks that may hinder the Council from meeting these.

As well as identifying all of the proposed pieces of work to be carried out during the year, the Plan:-

- Explained the statutory requirement for Internal Audit
- Described the approach and methodology adopted in producing the Plan
- Showed the level of resources available to deliver the Plan was 1,405 days based on an establishment of 8.4 full time equivalents
- Identified the Audit Universe for the Council
- Included high level risk assessments for each Council service
- Included a contingency to use in responding to requests for advice/assistance that arose throughout the year. Client feedback told us that Internal Audit's ability to respond promptly to unforeseen issues of the nature was highly valued. With finite resources though, we would need to carefully review involvement in any issues presented

In line with the new UK Public Sector Internal Audit Standards, the Plan did not become fixed when it was approved. It remained flexible and would be revised to take into account any significant emerging risks facing the Authority.

The scale of change in audit approach and resulting audit plan would be challenging for Internal Audit to deliver. Resources would need to be revised and invested within the service as necessary to enable it to successfully deliver the audit plan.

Consideration was given to a number of issues specifically around the external reviews, the "missing" reports and the flow of information

throughout the Authority. The Chief Internal Auditor confirmed this will be reviewed as part of a wider discussion on information governance and the management of Freedom of Information and Data Subject Access requests.

A series of quality assurance checks have been introduced in Children's Services and Internal Audit will examine these.

A new IT system is to be introduced for Children's Services and Adult Services and Internal Audit will examine this in due course.

One of the major areas of audit work would specifically focus on concerns raised by the Professor Jay and Casey reports and the serious weaknesses in children's social care in Rotherham and the quality assurance function with a view to making sure proper management arrangements and assessment timescales were in place.

Through careful management of our resources, we will continue to undertake the necessary work on fundamental financial systems to support the Section 151 officer to fulfil his statutory responsibilities.

Given the limited audit resources and the challenges to delivery of the Audit Plan, we will need to keep our practice of providing audit services to academies under review.

The audit plan will be kept under review on an ongoing basis, any significant changes to it will be reported to the Audit Committee for consideration and approval.

The Strategic Director of Resources and Transformation welcomed the shift in risk based focus, which was recognised in the report and which gave assurances as to how business was being managed from a governance perspective.

Resolved:- That the Internal Audit Plan for 2015/16 be approved.