

BARNSELY METROPOLITAN BOROUGH COUNCIL**Audit Committee****12th June, 2013**

1. **Present:** Councillors T Sheard (Chairman), Barnard, P Birkinshaw and D Green together with Co-opted Members – Ms D Brown and Messrs Ellis, Johnston, Lunn and Marks

2. **Councillor J Hayward**

The Chairman reported receipt of a letter from Councillor J Hayward, former Chairman of this Committee for a number of years which was read to Members of the Committee.

Councillor Hayward asked to place on record his thanks and appreciation to Members of the Committee, to the Vice Chairman, Mr F Johnston and all officers for their support, hard work and dedication during his time as Chair. He wished all Members well for the future.

3. **Declarations of Pecuniary and Non-Pecuniary Interest**

Mr M Lunn declared a non pecuniary interest in any items relating to Berneslai Homes in view of his membership of Berneslai Homes Board.

4. **Appointment of Vice Chairman**

RESOLVED that Mr F Johnston be appointed as Vice Chairman of the Committee for the 2013/14 Municipal Year.

5. **Minutes**

The minutes of the meeting held on the 27th March, 2013 were taken as read and signed by the Chairman as a correct record.

6. **Actions Arising from Previous Meetings**

The Assistant Director Finance (Audit and Risk Management) submitted a report detailing actions taken and arising from previous meetings of the Committee.

The Assistant Director reminded Members that a series of briefing sessions was to be organised on various aspects of Information Governance prior to meetings of the Committee later in the year. Further details would be provided nearer the date. It was also noted that an Interim Head of Information Governance had now been appointed.

The Committee was reminded that following the cancellation of the meeting in April, 2013 reports on the Internal Audit Quarterly report (4th

Quarter), the Review of the Terms of Reference and Self Assessment and the Audit Committee Training Review and Skills Self-Assessment had been circulated to all Members by email. The Assistant Director reported that no comments had been received.

RESOLVED that the report on action arising from the previous meeting be noted.

7. Audit Committee - Draft Annual Report 2012/13

The Assistant Director (Finance) (Audit and Risk Management) submitted the draft of the Annual Report of the Audit Committee for 2012/13.

This was the Committee's sixth Annual Report and it illustrated how the Committee had successfully fulfilled its Terms of Reference and improved the Council's Governance and Control arrangements

It was emphasised that the Annual report would need to be finalised and presented to the next meeting for formal approval prior to submission to the Council meeting. Following its approval it would also be placed on the Council's website as was the case in previous years.

Members were invited to submit comments as a matter of urgency.

Reference was made to the need to commit to meet with the Chair of the Overview and Scrutiny Committee to discuss, in a meaningful way, issues of common interest. The Chair reported that following the introduction of the new Scrutiny arrangements involving the abolition of the former four Scrutiny Commissions and their replacement with an Overview and Scrutiny Committee, he felt that such meetings could be facilitated.

Arising out of the above, the Chair gave a brief overview of the new arrangements in place for scrutiny which included the establishment, in addition to the Overview and Scrutiny Committee, a Children's Services Committee and Task and Finish Groups.

RESOLVED that the draft Audit Committee Annual Report 2012/13 be amended in the light of any further comments received and presented to the next meeting for approval prior to submission to the Council.

8. Annual Review of the Terms of Reference and Annual Self Assessment

The Assistant Chief Executive (Legal and Governance) and Assistant Director (Finance) (Audit and Risk Management) submitted a joint report on the review of the Terms of Reference and on the results of the Self Assessment Review.

The self assessment exercise together with the review of meetings and business of the Committee during the year had confirmed that the Terms of Reference remained appropriate.

A number of Members had indicated that they would support the introduction of fixed terms of 'office' which was a common approach for many Boards and Committees across the public and private sectors and within the audit industry itself. It was noted, however, that any such move would require appropriate consideration and approval by full Council. Members would be given the opportunity to examine this development further in discussion with the Assistant Chief Executive.

With regard to the Self assessment review, the results of the questionnaires had been used to assess members' understanding and awareness of the Committees duties and, therefore, contributed to the identification of areas for further training and awareness.

Key areas for further consideration included the need to examine formal mechanisms for receiving regular topical updates and how the Committee integrated with other Council Committees. The Executive Director felt that there were no major issues identified to indicate that there were any areas of major non compliance.

In the ensuing discussion, particular reference was made to the following:

- there was a need to re-draft the Terms of Reference to reflect the change of scrutiny arrangements within the authority
- it was suggested that there was a need to develop the role of Audit Champions
- there was a need to update Members on the change of governance arrangements and particularly as this related to the development of Area Councils and it was noted that this would be picked up in the briefing to be arranged on Information Governance. Arising out of this, the Chair reminded Members that
 - the Committee was lucky to have two Chairs of Area Councils amongst its Members, Councillor D Green who was Chair of the Central Area Council (comprising five wards) and Councillor Barnard, Chair of the Penistone Area Council (comprising two wards)
 - the move to devolved budgets for Area Councils from April 2014 could potentially increase risks which would have to be examined over the coming months.

RESOLVED:-

- (i) that insofar as this Committee is concerned, the Terms of Reference remain unchanged as detailed within Appendix A of the report now submitted;

- (ii) that the response to the self assessment questionnaire be noted and approved as key areas for development; and
- (iii) that further consideration be given to the introduction of fixed terms of 'office' for members of the Audit Committee

9. Internal Audit Annual Report

The Assistant Director (Finance) (Audit and Risk Management) submitted his Annual Report on the adequacy and effectiveness of the Authority's framework of Governance, Risk Management and Control (the internal control arrangements) based on the work of Internal Audit during 2012/13 which had been prepared in accordance with recommended practice contained within the new Public Sector Internal Audit Standards.

The report contained:-

- (i) an opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control
- (ii) a summary of the audit work undertaken to formulate the opinion
- (iii) details of key control issues identified, particularly in the context of the Annual Governance Statement
- (iv) the extent to which the work of other review or other bodies had been relied upon
- (v) a comparison of the Audit work undertaken with the work which was planned
- (vi) a summary of the performance of the Internal Audit Service
- (vii) a statement on conformance with the Public Sector Internal Audit Standards and the results of its quality assurance and improvement programme and
- (viii) a summary of the training and development activities undertaken with the Internal Audit Section

The meeting noted that the Assistant Director was able to provide an adequate assurance opinion. This opinion was based upon the completion of the annual programme of risk based audit coverage.

Key issues arising from all completed audits had been reported throughout the year within the quarterly Internal Audit reports. A number of reports issued resulting in a negative assurance opinion had decreased and most of the findings related, in the main, to 'people' issues and the non-compliance regarding the application of the necessary controls and checks. This non compliance would be

monitored throughout the year along with the number of negative report assurance opinions.

The implementation of audit report recommendations had continued to be an issue throughout the year and monitoring would continue to be a priority for the service.

A number of investigations had been completed during the year and no major issues had arisen although the control issues identified had been highlighted for management attention.

In addition, Divisional performance had remained satisfactory with most areas exceeding the target although three performance indicators had varied from the target relating to the issue of draft reports, chargeable time and sickness absence. The delay in issuing draft reports had mainly been to delays in obtaining details required to finalise audit reports and difficulties in securing dates for post audit meetings. Chargeable time was less than target due to absence due to vacancies and sickness.

The Committee's attention was drawn to the results of the core system reviews the reports from which were still being finalised, however, it was noted that the assurance opinions as detailed within the report, were unlikely to change. Overall, assurance opinions were positive with all systems receiving either adequate or substantial assurance.

In the ensuing discussion, and in response to detailed questioning, the following matters were highlighted particularly within the context of the Annual Governance Statement:

- it was noted that because of the financial position of the Authority and the reduction of staff involved, there may have to be an acceptance of more 'adequate' assurances as opposed to substantial in the future. Notwithstanding this, the acceptance of adequate assurance did not sit easily with the Committee bearing in mind the need ensure that public money was spent appropriately
- there was a discussion of the issues surrounding the reduction in the number of recommendations being implemented by the target or revised target dates together with the reasons for this. It was noted that there were no fundamental governance issues arising from this. These issues would, however, be kept under review and it was the intention that the areas of concern now raised would be addressed. The Assistant Director reminded the members of the reporting systems in place to follow up outstanding reports and to ensure that the Senior Management Team was kept abreast of areas of concern.
- there was an awareness of Contract Standing Orders and of the processes to be followed
- there was a discussion of the analysis of the matters investigated during 2012/13 together with the comparisons to

previous years. It was noted that the number of referrals and their nature was a very small proportion of the workforce and the total number of transactions processed. It was felt that this provided a positive source of assurance that the control environment of the Authority was working

- the details of the analysis of Internal Audit feedback received during the fourth quarter together with the cumulative responses for the 2012/13 Audit Year as outlined within an appendix to the report were noted
- the Assistant Director, referring to the Yorkshire Humberside Fraud Forum Annual Conference reminded the Committee that fraud was not Public Sector specific and that this was estimated to cost the UK economy in the region of £73 billion per year
- it was noted that the majority of fraud was largely around benefits rather than theft

RESOLVED:-

- (i) that the assurance opinion provided by the Assistant Executive Director (Finance) (Audit and Risk Management) on the adequacy and effectiveness of the Authority's internal controls be noted;
- (ii) that the key issues arising from the work of Internal Audit in the context of the Annual Governance Statement, be noted; and
- (iii) that the satisfactory performance and activities of the Internal Audit functions for 2012/13 be noted.

10. Annual Review of the Effectiveness of Internal Audit

The Assistant Director (Finance) (Audit and Risk Management) submitted a report presenting information and evidence in support of the statutory review of the effectiveness of the audit function and requesting the Committee to form a view as to its satisfaction that the audit function is effective and, where improvements had been identified, to monitor these during the year.

The Assistant Director reminded Members that the Public Sector Internal Audit Standards had come into effect on the 1st April, 2013, replacing the Code of Practice for Internal Audit 2006. These standards required the Head of Internal Audit to develop and maintain a quality assurance and improvement plan covering all aspects of internal audit activity (QAIP). The programme should be designed to enable an evaluation of the internal audit activity's conformance with the Standards and assess the efficiency and effectiveness of the internal audit activity and identified opportunities for improvement. It was considered, therefore, appropriate that the QAIP would also form the basis of the annual review of the effectiveness of the Internal Audit Function.

The Assistant Director went on to outline in more detail how the review had been undertaken together with the evidence that had been collected to support that review.

Overall, the report highlighted a high satisfaction with the internal audit function as evidenced by various sources of feedback from auditees and other consultees. Areas for improvement were summarised and related predominantly to those arising from the implementation of the new professional standards. These were the subject of an action plan which would be monitored during the course of the year.

RESOLVED:

- (i) that the information contained in the report now submitted in support of the review of the effectiveness of the audit function be noted and that the Audit Committee expresses its satisfaction with the service; and
- (ii) that a progress report be submitted in approximately 6 months time to monitor progress against the Internal Audit Action Plans as detailed within Appendices 3 and 7 of the report now submitted.

11. Risk Management Annual Report 2012/13

The Assistant Director (Finance) (Audit and Risk Management) submitted his annual report outlining the progress made in 2012/13 towards the achievement of the goals set out in the Council's Risk Management Policy and signposting the further work to be undertaken in 2013/14.

The report provided assurance that the significant risks to the achievement of corporate objectives had been identified and were being appropriately managed within a comprehensive risk management framework.

Specific reference was made to the following:

- The Risk Management Framework (including the Risk Management Policy and Strategy) had been reviewed and updated to reflect the context within which the Authority was working
- Risk Champion meetings were continuing to be held focussing on activity within Directorates aimed at further embedding a culture of Risk Management within the Authority
- The Strategic Risk Register zero-based review had been undertaken and was the subject of a separate report to this meeting
- A significant development of the Authority's corporate Risk Management Database was planned for later in the year and it was envisaged that the developments contained therein would provide substantial opportunities to improve the system

- Risk Management Training and Awareness programmes had delivered, in 2012/13 training to a number of senior offices, and Elected members. This was complemented by the provision for a Risk Management training package within the Barnsley on-line development platform
- the Risk Management Workplan for 2012/13 had been completed and the Risk Management Section was now working towards the delivery of the 2013/14 workplan

Appendices to the report provided details of the Risk Management Section Workplan which had been completed for 2012/13 and the current plan for 2013/14 together with an evaluation of the responses to assurance questionnaires which indicated consistently high scores in relation to the application of the Risk Management Strategy. Any issues identified as a result of these questionnaires had been included within the current workplan.

Arising out of the discussion, specific reference was made to the following:

- issues relating to the Digital Region project were raised and would be addressed in a subsequent item
- the current position with regard to Equal Pay Claims which could have significant implications for the future

RESOLVED:

- (i) that the Risk Management Annual Report for 2012/13 and the assurances contained therein be received and noted as part of the overall consideration of the control framework for the purposes of the Annual Governance Statement; and
- (ii) that periodic reports be presented to the Committee during the year to monitor the progress in achieving the actions identified for 2013/14.

12. Strategic Risk Register - Zero Based Review May 2013

The Assistant Director (Finance) (Audit and Risk Management) submitted a note presenting a draft Cabinet report to be submitted in June or July, 2013 covering the latest review of the Strategic Risk Register.

The report formed part of the Committee's assurance process where it was agreed that following the completion of the 'zero-based' review of the Strategic Risk Register, the Committee consider the latest version and provide appropriate comments thereon.

The Register contained those risks that were considered significant potential obstacles to the achievement of the Authority's Corporate objectives. The Assistant Director commented that it was important that

the Register remain up to date and be reviewed regularly in order to accurately reflect the most significant risks to the achievement of objectives and facilitate timely and effective mitigations to those risks.

As a result of significant organisational change in recent months, it had been agreed to undertake a full review of the Authority's existing Register and associated arrangements. This review had commenced in early 2013 and had been completed in May.

The Assistant Director outlined in some detail the way in which the register had been reviewed together with the role and involvement of the Senior Management Team in this process. Significant changes included:

- a reduction in the number of risks from 34 to 18 to include strategic risks rather than 'operational' risks as had, perhaps, been the case in the past
- the removal of traffic light colouring to the assessment scores
- the addition of traffic light colouring of mitigating actions

Mr A Hunt, Principal Corporate Risk Management officer, attended the meeting and briefed the Committee on the significant changes, as detailed within Appendix 1 to the report, together with the operation of the Register.

Arising out of the discussion, particular reference was made to the following:

- there was a discussion of the Digital Region project and the potential risks associated with its possible failure. It was noted that this had not been included within the revised Register on the basis that the project already benefitted from a robust Risk Register. An assurance could, therefore, be gained from appropriate escalation of these risks to the appropriate Executive Director within the Authority. It was suggested that a further report be submitted to the Committee on the current position with regard to this project as and when circumstances allowed
- the risks associated with the potential failure to deliver the Medium Term Financial Strategy were highlighted together with the proposed mitigating actions
- the rationale for not including operational risks in the Strategic Register was outlined. Arising out of this, reference was made to the links between both registers together with the ways concerns could be escalated. It was suggested that this topic could usefully be addressed in future Member briefing/training sessions for the Committee
- the current position with regard to Equal Pay Claims were highlighted

RESOLVED:

- (i) that the report on the outcomes of the 'zero-based' review of the Strategic Risk Register in relation to the management, challenge and development of the revised Register be noted and the Committee continue to receive periodic updates as to the progress of the actions taken and their impact on the Strategic Risk Register; and
- (ii) that a further report be presented to the Committee on the current position and potential financial liabilities for the Council of the Digital Region Project; and
- (iii) that a training/briefing session be arranged for members of the Committee on the Strategic Risk Register, the links between operational and strategic registers and the escalation processes.

13. Annual Fraud Report 2012/13

The Assistant Director (Finance) (Audit and Risk Management) submitted a report summarising the various aspects of anti-fraud and corruption activity across the Authority for the 2012/13 financial year and highlighting the planned activity for 2013/14.

The report provided information and assurance to the Committee regarding key aspects of the Authority's Internal Control and Governance Framework.

Of particular note were the following:-

- the mitigating controls available to prevent fraud and corruption including Benefits Investigation Section and the work of enforcement officers in other services
- the significant amount of work achieved from limited resources in response to the constant need to ensure high levels of anti-fraud awareness and the effective preventative measures
- the work and improved awareness which had been recognised through the Annual Governance Review process which had enabled the total average score for the Authority in respect of the anti-fraud element to remain constant for the second year
- the drive to improve awareness led by Internal Audit and the issuing of bulletins and guidance throughout the year
- the promotion and distribution of Fraud Awareness Handbooks for employees without internet access. In addition, Internal Audit were in the process of developing an e-learning anti-fraud training module on the corporate Learning Pool website
- the number of referrals had reduced from 30 to 29 compared to the previous year and the types of issues identified were outlined. In addition, there had been 101 successful sanctions and 27 successful prosecutions all of which had been widely

publicised in the national press which it was hoped would prove to be a deterrent to future fraud

- the work with joint operations and with other enforcement agencies was continuing and this was also serving as a deterrent
- there was a discussion of the National Fraud Initiative and to the data matching exercise. The completed matches had not identified any frauds or overpayments. Arising out of this, reference was made to the work of the Benefits and Taxation Department which had identified 2,124 data matches which were currently being investigated. Further details on the outcome of this would be provided to a future Committee
- the work of the Benefit Fraud Team was discussed. Questions were asked as to the accuracy of data but it was noted that
 - Barnsley had a relatively low level of fraud compared to other Local Authority Areas
 - residents had a 'reputation' for ensuring bills were paid appropriately and largely on time
 - Berneslai Homes had adopted a stringent approach to tackling tenancy fraud
 - the current financial climate could potentially lead to an increase in the amount of fraud and this would have to be kept under review

RESOLVED:-

- (i) that the Annual Fraud report, which forms part of the framework of the assurances to support the Annual Governance Statement, be approved;
- (ii) that the continued embedding of a culture of zero tolerance and high levels of awareness regarding fraud and corruption be supported; and
- (iii) that regular update reports be submitted regarding the implementation and success of the Corporate Anti-Fraud and Corruption Strategy.

14. Review of the Corporate Whistleblowing Policy

The Assistant Chief Executive (Legal and Governance) and Assistant Director (Finance) (Audit and Risk Management) submitted a joint report on the annual review of the Council's Corporate Whistleblowing Policy. A copy of the Policy was appended to the report.

Members were reminded that the previous review of the Policy had taken account of a number of the Council's anti-fraud related policies and guidance as well as the introduction of the provisions of the Bribery Act. Given the nature of that review and the absence of any new or revised guidance relating to whistleblowing, it was not deemed necessary to undertake any further specific review work at this time.

The report provided an update on the use of the policy together with an overview of the Policy in operation.

There had been 8 specific referrals using the whistleblowing provisions and in all cases an investigation had been undertaken or was in progress. In summary:

- 3 cases had been referred for investigation to the Benefits Fraud Team
- 1 case had been investigated and closed
- 2 anonymously raised issues had been referred to service management of investigation and both matters had been closed
- 2 cases were currently under investigation

Although not every referral resulted in the identification of wrongdoing, there had been important control issues identified and acted upon by management. All issues raised were deemed having been raised in good faith and, therefore, none were deemed to be vexatious or malicious.

In the ensuing discussion, particular reference was made to the following:

- whilst the policy usage was relatively small, this nevertheless suggested that there was a general awareness of whistleblowing
- there was a discussion of the potential for victimisation/harassment when concerns had been raised but not proven and of the HR policies and procedures in place to deal with such issues. The Assistant Chief Executive commented, however, that there was currently no evidence to suggest that this occurred.
- Arising out of the above, there was a discussion of the potential for the use of 'gagging clauses' although it was noted that this was not something that was currently used
- it was noted that an amendment was required to paragraph 9.1 (page 10 of the policy) following the change of the Council's External Auditor

RESOLVED

- (i) that the report be received;
- (ii) that the Committee confirm its continuing support towards the development of a strong counter fraud culture; and
- (iii) that further reports be submitted on the review and progress of the Whistleblowing policy on an annual basis.

15. External Audit Plan - Update Report

The Committee received an oral report from Mr D Murray of KPMG, the Council's External Auditor, on the current position with regard to the External Audit Plan.

He made specific reference to the way in which KPMG would deliver the financial statements and audit work for the Council. He commented on the work currently being undertaken following the change in external audit arrangements and to the ongoing liaison arrangements with appropriate officers which would ensure that the audit report was produced by the September deadline

In addition, the Committee was introduced to Ms R Lindley of KPMG who was welcomed to this, her first meeting of the Audit Committee.

RESOLVED that the report on the External Audit Plan be received.

16. Audit Committee Work Plan 2013/14

The Assistant Director (Finance) (Audit and Risk Management) submitted a report providing the indicative work plan for the Committee for its proposed scheduled meetings for the remainder of the 2013/14 municipal year.

RESOLVED that the core work plan for 2013/14 meetings of the Audit Committee be approved and reviewed on a regular basis.

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Chairman

Council Governance Unit