

BARNSLEY METROPOLITAN BOROUGH COUNCIL

Audit Committee

26th March, 2014

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

80. **Mr J Cornett - KPMG**

Mr J Cornett, Director of KPMG, was welcomed to this, his first meeting of the Audit Committee.

Mr Cornett thanked Members for the welcome and gave a brief overview of his background and his role within KPMG which was to lead the External Audit Team and to ensure the delivery of high quality, value added external audit opinion. He would be the main point of contact for the Committee and the Chief Executive.

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

Councillor T Sheard and Messrs Ellis and Lunn declared a non pecuniary interest in any matters relating to Berneslai Homes being Board Members on that Organisation.

Mr Lunn declared a non pecuniary interest in Minute No 94 'Internal Audit Plan' insofar as the discussion related to the South Yorkshire Police Chief Constable and the South Yorkshire Police and Crime Commissioner in view of his involvement with audit arrangements thereof.

82. **Minutes**

The minutes of the meeting held on the 22nd January, 2014 were taken as read and signed by the Chairman as a correct record.

83. **Actions Arising from Previous Meetings**

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

It was noted that the Awareness Session on Information Governance planned for immediately prior to this meeting had been cancelled due to

unforeseen circumstances. Members would be informed of the date of the re-arranged session as soon as this became known.

RESOLVED that the report be noted.

84. Internal Audit Charter and Strategy - Revised March 2014

The Assistant Executive Director Finance, Audit and Risk Management submitted a report prefacing the annually reviewed and revised Internal Audit Charter and Strategy which had been considered within the context of the requirements of the Public Sector Internal Audit Standards that had become effective from 1st April, 2013.

The review of the Charter and Strategy reflected the current working arrangements of the function but also the aspirations and developments necessary to ensure continuous improvement. It would be made available to all employees via the Council's intranet site immediately following this meeting.

The Strategy had been updated to take account of the changes arising from the increase in client base and the integration of the Joint Secretariat Internal Audit Service within the BMBC Internal Audit Service and the impact on the scope and breadth of audit coverage. In addition, the changes reflected the Council's key risk areas in respect of the efficiency drive/future Council arrangements and significant change programme.

The Internal Audit Team (Including Risk Management and Governance) now provided services to the South Yorkshire Police Commissioner, the South Yorkshire Police Chief Constable, the South Yorkshire Fire and rescue Authority, the South Yorkshire Pensions Authority and the new Combined Authority as well as BMBC and Berneslai Homes. In view of this, the Charter and Strategy were now composite documents covering all organisations. The key changes were summarised within the covering report.

Particular reference was made to:

- the position with regard to the Service Level Agreement with 'external' organisations. It was noted that this was commercially sensitive information
- the integration with the Joint Secretariat was touched upon and it was noted that this meant that economies of scale could come into play with the amalgamation of staff from both organisations
- the arrangements to reduce the 'non-chargeable' time in order to meet the requirements of clients whilst at the same time minimising costs
- in response to detailed questioning, reference was made to the changing nature of Internal Audit and to the required professional skills required by auditors to undertake such work

- the restructure of the Finance, Property and Information Services Directorate and to the implications this had for Internal Audit. Arising out of this discussion, reference was made to the 'Future Council' proposals and to the development of Business Units all of which was designed to ensure that the Authority's savings proposals were achieved whilst at the same time, maintaining services. A presentation on Future Council would be provided once more formal arrangements were in place. It was suggested that once the final structure was agreed, that Members of the Committee be provided with a structure chart.

RESOLVED:-

- (i) that the internal Audit Charter and Strategy be noted; and
- (ii) that the Committee place on record that it is satisfied that the Internal Audit Charter and Strategy represent an effective means of describing the function and that the delivery of the Strategy supports the assurances the Committee receive from Internal Audit.

85. Strategic Risk Register - Full Review February, 2014

The Assistant Executive Director, Finance, Audit and Risk Management submitted a report prefacing a report to be submitted to Cabinet in April, 2014 on the latest full 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 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.

Mr A Hunt, Principal Corporate Risk Management Officer attended the meeting and briefed the Committee on the way in which the Register had been reviewed and the role of the Senior Management Team in this process. He then briefed the committee on the changes as detailed within Appendix 1 to the report together with the operation of the Register.

He commented that no risks logged within the Strategic Risk Register had either worsened or improved since the last review and the reasons and implications for this were described. It was also noted that the uncertain environment in which the Authority currently operated had also

influenced risk owners to be pragmatic when considering any changes to the level of risk concern.

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

- there were two risk mitigating factors logged as 'red' which indicated that action may not have the desired positive impact on the risk itself or that action was not progressing at the pace that was expected.
- there was a discussion of the two red risks:
 - 3025 - Failure to Safeguard Vulnerable Service Users - it was noted that the mitigation required attention to ensure that the Stronger Barnsley Together Programme benefitted from a robust infrastructure; and
 - 3034 - Failure to deliver the Medium Term Financial Strategy - questions were asked as to why the risk for 2014/15 was green whilst the 2015/16 was red. It was noted that the level of concern for this mitigation reflected the uncertainties regarding the development of the Authority's 2015/16 budget due to austerity measures and the desire to 'front-load' budget savings. The Assistant Director Financial Services commented that he was confident that the 2014/15 budget could be delivered
 - arising out of the discussion of the above, reference was made to the new mitigation actions that had been identified to address the risks following the February Review
- Reference was also made to risk 3034 - Failure to Safeguard information and risk 3026 - Failure to achieve a reduction in Health Inequalities within the Borough and to the action being taken to mitigate those risks
- it was noted that despite initial concern regarding certain risks, the action being taken was, for the most part, on track and achievable
- it was noted that whilst appropriate structures and processes were in place, time was nevertheless required to gauge the overall effect and impact of the new controls on the overall level of concern for those risks
- it was noted that all the 'Partner' organisations had their own Strategic Risk Register and arrangements. Good practice principles seen and arising from other work undertaken by Internal Audit was utilised throughout all 'partners'. Arising out of this discussion reference was made to the Partnership Governance arrangements in place
- it was also recognised that risk management within the Council had improved significantly over the last few years

RESOLVED:

- (i) that the report on the outcomes of the review of the Strategic Risk Register in relation to the management, challenge and development

of the Strategic Risk 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 an awareness session and Structure Chart on Future Council be arranged prior to a future meeting of the Committee.

86. External Audit - Certification of Claims and Returns Annual Report 2012/13

The Committee received the External Auditor's Annual Report summarising the findings from the certification of the 2012/13 grant claims and returns, outlining the significant findings and messages arising from the assessment of the Council's arrangements for preparing grant claims and returns, on information on claims that have been amended or qualified and on the revised fee regime for undertaking such work.

Ms L Wild representing KPMG, the External Auditor commented that unqualified certificates for three grants and returns had been issued and that qualifications were necessary in two cases relating to the Housing and Council Tax Benefits claim (following the identification of errors found during audit testing) and in relation to Teachers Pension Return (due to a difference between the amount paid and the amount due to the Teachers' Pensions Authority). These were both minor but were a mandatory requirement to report and there were no concerns raised in relation to these. The Assistant Director Financial Services stated that arrangements were in hand to address the issues identified.

Minor adjustments were necessary to two of the Council's grants and claims as a result of this years certification work and the Council generally had good arrangements for preparing its grants and returns.

Details of the fees for the certification returns had been contained within the original estimate and a refund of £2,474 had been provided.

RESOLVED that the report on the 2012/13 annual audit of grants claims and returns and the action proposed in response to the findings be approved.

87. Treasury Policy and Strategy Statements 2014/15

The Assistant Director Financial Services presented a report of the Director of Finance, Property and Information Services on the 2014/15 Treasury Policy and Strategy Statements 2014/15 (including the Annual Investment Strategy) for information and comment which had been approved by the Council at its meeting on the 27th February, 2014.

The Treasury Policy Statement for 2014/15 and the Treasury Strategy Statement 2014/15 were appended to the Director's report and both had been prepared in compliance with the revise code issued by CIPFA.

Particular reference was made to the changes in the Council's investment portfolio which took account of the continuing uncertainty within the financial markets and recent changes to the regulatory framework.

it was noted that these documents had been scrutinised prior to the meeting by Councillor Barnard and by Mr Lunn. The Committee was reminded that Mr Lunn was to relinquish his position as an Independent Member on the Committee at the end of the Municipal year and the remaining Independent Members were asked to inform the Chair if they wished to take on this scrutiny role.

RESOLVED that the Treasury Management Policy and Strategy Statements 2014/15 be noted.

88. External Audit Reports

(a) Audit Fee Letter

Ms L Wild, representing KPMG, the Council's External Auditor submitted the Audit Fee Letter detailing the work and fee proposed for the 2013/14 financial year.

She apologised for the late submission of the letter but stated that the fees for 2013/14 had been held at 2012/13 levels. In addition, it was pleasing to note that the fees for the Certification of grant claims and returns had been reduced. The fees would be revised if required depending upon the level of work required to be undertaken.

In presenting the letter, Ms Wild commented on the key Members of the Audit Team which, in addition to herself and Mr Cornett, included Ms A Warner.

RESOLVED that the Audit Fee Letter be received.

(b) External Audit Plan

Mr J Cornett, representing KPMG, the Council's External Auditor submitted a report supplementing the Audit Fee Letter, describing how External Audit would deliver the financial statements and audit work for the Council and setting out the approach to Value for Money work for 2013/14.

The report included:

- the headline messages focussing on the audit approach, the key risks identified within the financial statements audit and the further area of audit focus in relation to Digital Region Ltd
- the approach of the audit of the financial statements
- the approach to Value for Money work
- information on the Audit Team, the proposed deliverables, the timescales and fees involved

Arising out of the above, particular reference was made to

- the work to be undertaken in relation to the seeking of assurance over the data provided to actuaries for the Pensions Triennial Valuation. It was noted that this was generic risk for all Local Authorities
- the area of further audit focus relating to Digital Region (including Value for Money Approach) , Management override of controls and Fraudulent Revenue Recognition
- the Savings plans for reductions in funding

RESOLVED that the report on the External Audit Plan 2013/14 be received.

(c) Progress Report and Technical Update

The Committee received a progress report from the Council's External Auditor (KMPG) which was presented by Ms L Wild.

The report:

- provided an overview of the progress made by the External Auditor in delivering their responsibilities to the Council. At each stage of the audit the Auditor issues certain deliverables including reports and opinions and a summary of progress made against these deliverables was appended to the report
- highlighted the main technical issues which were currently having an impact on local government and which were being addressed.

The progress report detailed the current position with regard to Audit Planning, Financial Statements for 2012/13 and 2013/14, Value for Money, Certification of claims and returns and other work. There were no significant factors to report and a further update would be provided on any changes identified.

The independent review of the Digital Region Ltd on behalf of all South Yorkshire Authorities was progressing and a draft report would be submitted for Management consideration in early April.

The Technical update outlined the likely level of impact of issues affecting the Authority together with comments and timescales for action where appropriate.

RESOLVED that the External Audit Progress Statement and Technical Update be received and noted.

89. Local Government Act 2003 - Section 25 Report on the 2014/15 Budget Proposals

The Assistant Director Financial Services submitted the Section 25 report of the Director of Finance, Property and Information Services providing advice on the robustness of the estimates included within the 2014/15 budget, on the adequacy of the reserves that the budget would provide and giving information on the affordability and prudence of capital investment given the impact of the revenue budget.

RESOLVED that the report be received.

90. Corporate Finance and Performance Management Position for the Month Ending 31st December, 2013 and Capital Programme 2013/14 - 2015/16 - Update

The Assistant Director Financial Services presented a report of the Director of Finance, Property and Information Services summarising the position of the Corporate Finance and Performance management position and the Authority's Capital Programme for the three year period 2013/14 – 2015/16 as at 31st December, 2013.

As previously agreed only the covering report was presented, the full documentation having been made available to Members prior to the meeting.

RESOLVED that the report be received and that the Committee be kept informed of action taken to address areas of demand led overspend

91. Audit Committee Work Plan 2013/14 and 2014/15

The Assistant Executive 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. The report also gave details of the indicative timetable and work programme for meetings from June 2014 to April 2015.

The Assistant Director reminded Members that:

- various awareness sessions would be planned and details of the revised date for the session on Information Governance would be provided in the near future
- the next meeting would now be held on the 30th April,.

RESOLVED that the core work plan for 2013/14 and 2014/15 meetings of the Audit Committee be approved and reviewed on a regular basis

The Chairman, Councillor T Sheard, agreed to the consideration of the following as urgent items due to the need to report on these matters prior to the next meeting.

92. Mr G Ellis - Co-opted Member

The Chairman reported this would be the last meeting attended by Mr G Ellis (Co-opted Member).

The Chairman and Members of the Committee asked to place on record their thanks and appreciation to Mr Ellis of the work and service to this Committee and they wished him all the best for the future.

93. Exclusion of the Public and Press

RESOLVED that the public and press be excluded during the consideration of the following item because of the likely discussion of exempt information as defined by Paragraph 7 of Schedule 12A of the Local Government Act 1972 as amended.

94. Internal Audit Plan 2014/15

The Assistant Executive Director (Finance) (Audit and Risk Management) submitted the indicative Internal Audit Plan for the financial (audit) year 2014/15, summarising the audit activity across the Authority together with an analysis by audit type and describing the rationale and process for setting the plan, the risk assessment process used and how Internal Audit resources were calculated and deployed.

Particular reference was made to:

- the reduction in resources available to the service within the context of the Future Council proposals and to the impact this would have on the Audit Plan
- the consultation undertaken with key stakeholders on the plan
- the reserve audits planned in the event that resources permitted such work
- the rationale for the allocation of audit hours to various elements of the plan and for the increase in the number of FTE audit days
- the economies of scale following to be achieved following the amalgamation of staff from the South Yorkshire Joint Secretariat into Internal Audit
- the work planned with 'other' stakeholders/partners

RESOLVED:-

- (i) that the Indicative Internal Audit Plan 2014/15 be agreed, acknowledging the need for the Assistant Executive Director, Finance, Audit and Risk Management (to be designated as the Head of Internal Audit and Risk Management from 1st April, 2014) to exercise his professional judgement during the year to apply the Plan flexibly according to priority, risk and resources available; and
- (ii) that the Assistant Executive Director (Finance) (Audit and Risk Management) submit quarterly monitoring reports to demonstrate progress against the Plan, including information where the Plan has materially varied from the original Plan.

.....
Chairman

Council Governance Unit
27th March, 2014