

BARNSELY METROPOLITAN BOROUGH COUNCIL

Audit Committee

19th September, 2014

28. **Present:** Councillors T Sheard (Chairman), P Birkinshaw and D Green together with Co-opted Members – Ms Brown and Messrs Gill and Marks.

Also in attendance, at the invitation of the Chair, was the Leader of the Councillor Sir Steve Houghton CBE.

The Chair and Members of the Committee welcomed Ms A Warner (KPMG) to this her first meeting.

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

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

30. **Minutes**

The minutes of the meeting held on the 116th July, 2014 were taken as read and signed by the Chairman as a correct record.

Arising out of the discussion of the minutes reference was made to the current position with regard to the arrangements being made to recruit to the current vacancies for two Independent Members.

RESOLVED that an update report on the recruitment of Independent Members be submitted to the next meeting.

31. **Actions Arising from Previous Meetings**

The Head of Internal 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 various aspects of Information Governance was to be arranged prior to a future meeting and details would be circulated as soon as this had been arranged. The Director of Finance, Property and Information Services reported that the newly appointed Head of Information Services was to commence work with the Authority shortly. It was hoped, therefore, that the date of this Awareness Session would be available for the next meeting.

RESOLVED that the report be noted.

32. External Audit Annual Governance Statement 2013/14

The Committee considered the report of the External Auditor (KPMG) which had been submitted in accordance with International Standard on Accounting 260, the External Audit Annual Governance Audit Annual Report for 2013/14. John Cornett (Director) from KPMG presented report which incorporated the following:

- the Headline findings
- the proposed opinion and audit differences
- the key financial audit risks and areas of audit focus
- the Accounts Production and audit process
- the organisational control environment and controls over key financial systems
- the Value for Money Conclusion including the specific Value for Money Risks
- Audit differences
- the Declaration of independence and Objectivity

He indicated that he anticipated issuing an unqualified audit opinion on the Authority's financial Statements and, in addition, the wording of the Annual Governance Statement accords with the Auditor's understanding of knowledge acquired in the course of performing the audit.

A small number of presentational adjustments were required and these matters had been addressed by the Authority. The Control Environment was effective overall and there were no significant weaknesses identified. Proper arrangements had been made to secure Value for Money in terms of economy, efficiency and effectiveness and there were no issues arising from the Value for Money risk areas.

In summary, the Accounts and Working Papers had been produced to a high standard and minor adjustments had been made to the accounts throughout the audit. The Finance Team, Mr N Copley (Assistant Director, Financial Services) and Ms F Foster (Director of Finance, Property and Information Services) had dealt with audit queries efficiently and effectively and staff were thanked for their assistance and support. Audit Risks had been mitigated and particular reference was made in this respect to the Local Government Pension Scheme Triennial Evaluation and to the Digital Region Ltd. As previously stated, the Annual Governance Statement complied with the CIPFA Guidance and was consistent with all other information published by the Authority. All recommendations made in previous years had been addressed and there were no new recommendations. Finally, Value for Money Risks identified in relation to Digital Region and Savings Plans had been mitigated.

The presentation engendered a full and frank discussion during which matters of a detailed and general nature were raised and answers were given to Members questions where appropriate.

The following issues were referred to:

- in response to questioning Mr Cornett stated that he would examine the working in relation to Key Audit Risks (Pension Valuation and Digital Region, pages 5 and 6 refers) to ensure that there was no ambiguity
- in relation to Digital Region, the Director of Finance, Property and Information Services explained why it was not anticipated that costs would increase compared to the provision accounted for in the 2012/13 financial year. It was understood, however, that there may be some additional liabilities identified but it was not felt that these would be substantial. Mr Cornett stated that he was confident that the amount calculated reasonably.
- The External Auditor explained why, in relation to the control environment, the organisational controls were considered to be effective overall. He also informed the Committee that External Audit did not complete detailed testing of these controls and the reasons for this. Arising out of this discussion, reference was made to the work and role of Internal Audit in assessing risk in this respect

RESOLVED:-

- (i) that the External Auditor's Report 2013/14 be received and referred for consideration by the Council to be held on the 25th September, 2014;
- (ii) that the Auditor's findings on the effectiveness of the Council's internal controls and his conclusion on the Council's arrangements for securing Value for Money be noted;
- (iii) that the Committee place on record their thanks and appreciation to the hard work of the External Auditor and the Director of Finance, Property and Information Services and their respective Teams in this process.

RECOMMENDED TO FULL COUNCIL ON THE 25th SEPTEMBER:-

- (i) that the External Auditor's Draft Annual Governance Report 2013/14 be approved;
- (ii) that the findings on the effectiveness of the Council's internal controls and his conclusions on the Council's arrangements for securing Value for Money be noted; and
- (iii) that the findings from the audit work in relation to the 2013/14 financial statements be noted and accordingly, the final accounts 2013/14 be approved;

33. Annual Governance Statement 2013/14

Further to minute no 21 of the previous meeting held on the 26th July, 2014, the Committee considered a joint report of the Director of Legal and Governance and Director of Finance, Property and Information Services on the final Annual Governance Statement for 2013/14, requesting the Committee to refer it to the Council for consideration and adoption as part of the process for approving the

2013/14 Statement of Accounts. A copy of the Statement was appended to the report.

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

- the final Statement was substantially the same as the draft submitted to the previous meeting and, following consideration and approval by Council on the 25th September, 2014, would be placed on the Council's website in order to demonstrate that the Authority's financial and internal control related procedures were being complied with.
- The Chair suggested that in view of the importance of the Annual Governance Statement, a training/awareness session should be provided for all Members of the Council
- The Leader of the Council commented on the excellent work of External Audit in the Annual Governance Process. He commented that this Statement provided an assurance that the Authority had appropriate procedures and processes in place and that it was good to receive positive feedback

RECOMMENDED TO FULL COUNCIL ON THE 25th SEPTEMBER: that the final Annual Governance Statement 2013/14 be approved and adopted.

34. Annual Governance Statement 2013/14 – Action Plan Update Report

The Head of Internal Audit and Risk Management submitted a report on the progress being made against each item in the Action Plan relating to issues identified in the Annual Governance Statement for 2013/14.

It was noted that the Action Plan, a copy of which was attached, would be updated and reviewed and reported to the meeting in December. In all cases actions had continued and were in progress. In most areas the nature of the issues was such that work was of a longer-term nature and consequently the original issue had not been completely resolved.

Some of the issues had been carried forward from the 2012/13 Annual Governance Statement and the actions necessary had been identified over 12 months ago. These actions would also be monitored by this Committee and an update was provided and ensured that momentum of progress was maintained.

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

- The emerging issues in relation to Future Council were highlighted. There would be huge implications for the Council. The role of the Senior Management Team in this process was outlined. A Future Council Change Programme continued to monitor the delivery of all related programmes and projects and a Future Council Steering Group had been established to ensure the delivery of all Future Council budget efficiencies. A Future Council position statement would be prepared for submission to the December or January meeting

- In relation to items 1 & 2 in the appended Action Plan, Members noted that work was progressing, however, it was suggested that more robust timescales should be included detailing when work was due to be complete
- The Director of Finance, Property and Information Services commented that as part of the Future Council initiative, the Authority was looking at how all contracts were drawn up, operated and were monitored and lessons learned from past contracts would be taken into account in this process. This would have an increasing significance and the Future Council proposals progressed and more external contracts came into play. A Working Party had been established and would review current arrangements and identify where further work was required

RESOLVED that the report be received and that the progress being made against each item in the Annual Governance Statement Action Plan for 2013/14 be noted and that explanations be sought, where appropriate, regarding any issues of progress.

35. Annual Treasury Management Report 2013/14

The Director of Finance, Property and Information Services submitted a report that had been submitted to the Cabinet on the 30th July, 2014 presenting the Treasury Management Annual Report 2013/14 for information and comment.

The report had been prepared in accordance with the revised CIPFA Treasury Management Code and the Code of Practice and included information covering the Treasury Management Activities and Performance against Prudential Indicators with particular reference to the following areas:-

- The agreed strategy for 2013/14
- The economic review
- A review of the Council's Capital expenditure and Capital Financing requirements for both the General Fund and Housing Revenue Account
- A summary of the Council's net debt position
- A review of borrowing activity for the General Fund and Housing Revenue Account and the General Fund investment activity for the year
- Compliance with Prudential Indicators for 2013/14

The Treasury Strategy had centred around two key themes:

- Minimising interest costs using internal resources in lieu of external borrowing; and
- maximising investment returns within the key principle of capital preservation.

Borrowing costs had been kept low through a variety of measures including internal borrowing and temporary borrowing from other local authorities at low rates.

The Annual Investment Strategy continued to emphasise the primary objective of the security of capital and the Authority had adopted a conservative strategy with all fixed term deposits being placed with highly rated institutions. Capital, therefore, remained secure and no deposits were considered to be at immediate risk. Sufficient liquidity had been maintained through the use of money market funds and temporary borrowing from other local authorities and an average yield of 0.62% had been achieved on investments (in excess of the benchmark based on market rates by over 0.2%).

An appendix to the full report demonstrated compliance with the prudential Indicators and indicated that all borrowing and investment transactions undertaken during the year had been in accordance with agreed policies and strategies.

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

- The use of 'internal borrowing' to assist with cash flow issues
- The use of reserves and balances and particularly as this related to the Future Council initiative
- The Director of Finance, Property and Information Services indicated that she would arrange a further training/awareness session on Treasury Management

RESOLVED that the Annual Treasury Report for 2013/14 be noted.

36. Corporate Finance Position as at 30th June 2014 and Capital Programme Update 2014/15 – 2016/17 Update

The Director of Finance, Property and Information Services submitted a report summarising the Corporate Finance and Performance Management Position and the Authority's Capital Programme for the three year period 2014/15 to 2016/17 as at 30th June, 2014.

The reports had been presented to the Cabinet on the 30th July, 2014. In relation to the Corporate Finance and Performance Management position, overall, there was a potential in year end operating surplus of £3m but this included £3.7m of non-service related under-spends which would now have to be factored into future year/s budgets as part of the recently updated Medium Term Financial Strategy and which were, therefore, not recurrent. Taking this into account, there was a forecast operational deficit on service expenditure of around £0.8m for the current year.

Cost pressures of around £0.4m within the Children, Young People and Families Directorate largely related to the Community Learning and Information Service and mitigating action were being considered in relation to Moorland Plastics business plan and other contributing factors which should see this deficit disappear in 2015/16 and reduce in the current financial year.

There were cost pressures within the Development, Environment and Culture Service with shortfall of income in Engineers and Culture Services. Mitigating actions were also being taken which should see this eliminated in future years.

In summary, therefore, the position for the current financial year was relatively healthy but given the current funding outlook, it was important that any areas of overspending were highlighted and brought back on track.

With regard to the Capital Programme, the total estimated cost was around £203m including the significant investment set aside for the regeneration of Barnsley Town Centre. Overall, however, there were no problems anticipated in funding the programme at this time. It should be noted, however, that the potential for additional capital investment over the next few years would be severely restricted given that the Council priority was to complete the Town Centre redevelopment during this time.

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

- The Director of Finance, Property and Information Services explained the current position with regard to the Moorland Plastics Business Plan which was currently being developed. A report on future sustainability was to be submitted to Cabinet in due course
- The reasons for the cost pressures relating to the Community Learning and Information Service were outlined and it was noted that plans were in place to address issues over the next two years. Arising out of this, reference was made to the Service within the context of Future Council and to a report that was to be submitted to Cabinet in the near future. Further information could be obtained on this matter
- It was pleasing to note that the forecasted operational deficit was showing a downward trend

RESOLVED that the report be received and the Corporate Finance and Performance Management position and Capital Programme for the three year period 2014/15 to 2016/17 as at 30th June, 2014 be noted.

37. 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 2013/14, Value for Money, Certification of claims and returns and other work. It also gave details of the use of KPMG resources in relation to the KPMG/Shelter report on proposals to fix the housing shortage within England

The Technical update outlined the likely level of impact of issues affecting the Authority together with comments and timescales for action where appropriate. Particular reference was made to the current position with regard to:

- the transfer of funds from the NHS to local authorities. the Housing Revenue Account Borrowing Programme
- the Audit Commission call for improved quality and accuracy in grant and subsidy claims and returns. It was noted that the findings of the External Auditor's certification work for 2013/14 would be submitted to the meeting in January, 2015
- the 2014/15 work programme and scales of fees for the National Fraud Initiative
- the publication in June of the 2014 National Report on the National Fraud Initiative and the Commission's data matching exercise to help prevent and detect fraud

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

- the current position with regard to the transfer of funds from the NHS and particularly in relation to the payment of funding to local authorities in respect of social care functions. Arising out of this discussion, the Leader made reference to the role of the Health and Well Being Board and to the reshaping of services to fit the new 'health care' environment
- the current position with regard to the recently launched Housing Revenue Borrowing Account and the potential impact this may have. It was noted that discussions were progressing on this matter with Berneslai Homes and that a report would be submitted in due course. A briefing would be provided for Members of the Committee

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

38. External Audit – Local Authority Corporate Risk Register Analysis – Single Tier Authorities

The Committee received the External Audit analysis of the corporate Risk Registers from a range of Local Authorities and highlighting the most frequently featured risks across those Registers.

It was noted that organisations could use this comparative data to help them:

- consider whether there were any potential risks that may have been omitted from their own risk register

- challenge how risk management was supported in terms of the use of software
- challenge how often risk registers were reviewed by relevant officers and Members

Arising out of the consideration of the report particular reference was made to the following:

- Barnsley Council was not significantly different to the other Councils in the survey
- The use of, and reason for using, specialist 'risk management' software was outlined as were the advantages to be gained from its use. In response to questioning, the Head of Internal Audit and Risk Management confirmed that the software was fit for purpose. The system was a fully integrated internal audit and corporate risk management system that provided excellent functionality with the ability to use common language and reporting. A further training/awareness session could be provided for Members of the Committee and particularly in relation to the use of the software
- The way in which risk registers were reviewed by both Officer and Member Groups – reference was also made to the role of this Committee in this process
- It was confirmed that the Authority did analyse how the 'risk challenges' were met. The way in which this was undertaken together with the training provided was outlined
- The benefits of benchmarking were outlined particularly in relation to the ways in which information gained could be used to re-shape services.
- It was also noted that benchmarking could lead to mediocrity – this was not the case in Barnsley but recent revelations in neighbouring areas highlighted the need to remain vigilant.

RESOLVED that the report be received.

39. **Audit Committee Work Plan 2014/15**

The Head of Internal 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 2014/15 municipal year.

Details of any training/awareness sessions would be provided at the earliest opportunity.

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

40. **South Yorkshire Digital Region Project – Independent Review**

The Committee received the External Audit Independent Review of the South Yorkshire Digital Region Project which had been commissioned by the four South Yorkshire Authorities.

The report outlined in detail the background to the establishment of the Digital Region Project together with the project chronology. It gave details of the key findings from the review, the successes emanating from the project and outlined the lessons to be learned.

The Leader of the Council, Sir Steve Houghton CBE, stated that he welcomed the report and he confirmed that the lessons learned from the project would be incorporated into future working practices. Indeed these were already being adopted

In the ensuing discussion, the following matters were raised:

- The aims of the project had been achieved, however there had been significant changes in the digital communication market in the region over the project period which would probably not have occurred had Digital Region not been in existence
- It was noted that this morning a contract had been signed with a company which would hopefully deliver high speed broadband to 98% of the population of South Yorkshire.
- The lessons learned from this project were already being incorporated into working practices of all authorities and particularly as this related to the establishment of contracts with external providers
- The need for the appointment of consultants to be appropriately managed was noted in order to address knowledge or resource gaps
- The funding arrangements, including that from the EU, for the project were referred to as were the potential liabilities
- The reasons for not including recommendations were highlighted. It was noted that the report would be considered by all four Authorities and appropriate recommendations for changes in working practices/procedures would then be made

The Leader of the Council, Sir Steve Houghton CBE, stated that he welcomed the report and he confirmed that the lessons learned from the project would be incorporated into future working practices. Indeed such arrangements were already being (or had been) put in place. He briefly commented on the rationale for the establishment of the project and indicated that had the project not been pursued, it was highly unlikely that South Yorkshire would have seen the digital expansion, which was essential for modern businesses that it had. The report confirmed that the right decision had been made (to establish Digital Region) at that time, however, the project had not been the commercial success it had hoped it would be. He also briefly commented on the aims of the contract recently signed with another digital provider which would bring super fast broadband to more areas of the borough. The Leader also commented upon the funding arrangements of Digital Region.

RESOLVED that the report be received.

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Chairman