

<b>MEETING:</b>	Audit Committee
<b>DATE:</b>	Wednesday, 20 July 2016
<b>TIME:</b>	4.00 pm
<b>VENUE:</b>	Reception Room, Barnsley Town Hall

**Present** Councillors Richardson (Chair), Barnard and Lofts together with Independent Members - Ms K Armitage, Ms D Brown, Mr S Gill, Mr P Johnson and Mr M Marks

## 11. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST

There were no declarations of interest from Members in respect of items on the agenda.

## 12. MR J CONNEELY - AUDITOR

The Chair and Members of the Committee welcomed Mr Joshua Conneely (Auditor, Internal Audit) to this his first meeting of the Committee.

## 13. MINUTES

The minutes of the meeting held on the 15<sup>th</sup> June, 2016 were taken as read and signed by the Chair as a correct record.

## 14. ACTIONS ARISING FROM THE PREVIOUS MEETINGS

The Head of Internal Audit and Corporate Anti-Fraud submitted a report detailing actions taken and arising from previous meetings of the Committee.

It was noted that a report on the multi-agency approach to safeguarding the and creation by the Police of multi-agency hubs would be submitted to a meeting within the current financial year. Further details of the response date would be provided.

**RESOLVED** that the report be noted and that, where appropriate, future reports detail progress of actions required and timescales for submission of future reports.

## 15. INTERNAL AUDIT QUARTERLY REPORT 2016/17 - QUARTER ENDED 30TH JUNE, 2016

Mrs J Winham, Audit Manager, presented a report of the Head of Internal Audit and Corporate Anti-Fraud presenting a comprehensive overview of the key activities and findings of Internal Audit based based on the Division's work to the end of June, 2016 being the first quarter of the 2016/17 audit year.

The report covered:

- The issues arising from the completed Internal Audit work undertaken within the quarter
- Matters that had required investigation
- An opinion on the ongoing overall assurance Internal Audit was able to provide based on the work undertaken regarding the adequacy and effectiveness of the Authority's internal control environment

- Progress on the delivery of the Internal Audit Plan for the period to the end of the fourth quarter of 2016/17
- Details of Internal Audit's performance for the quarter utilising performance indicators

Reports issued and the Internal Audit work completed during the quarter had raised one fundamental recommendation relating to an information governance issue regarding the monitoring and control of system access.

Internal control assurance opinion overall remained adequate based upon the results of the work undertaken during the quarter.

Of the 6 recommendations followed up, 17% had been implemented by the original target date and a further 83% had not been implemented and had received a revised implementation date by management.

In relation to the Audit Plan, actual days delivered was broadly in line with the profiled days at the end of the first quarter.

Overall, Divisional performance remained satisfactory with only the chargeable time performance indicator being slightly less than target due to the profile of annual leave taken in the first quarter.

In the ensuing discussion, and in response to detailed questioning, the following matters were highlighted:

- There was a discussion of the savings target likely to be applied to the Internal Audit Function as part of the 2017/18 savings proposals and whether or not, in the light of any staffing reductions, the Internal Audit function could be maintained. Arising out of the discussion reference was also made to the recent recruitment exercise to fill the vacant positions (one of which had now been filled) and the decision to consider the vacant position within the context of the savings exercise for 2017/18. It was noted, however, that no firm proposals had yet been brought forward and an assurance was given that any restructure would still ensure that the Internal Audit function could be maintained and that appropriate assurance and coverage could be provided at all times
- Arising out of the above discussion and in response to detailed questioning, the Director of Finance, Assets and Information Services outlined the process that the Council followed when recruiting to vacant posts
- The rationale for the addition/removal of audits from the Audit plan and the discussions that were held with management in this respect were outlined
- Reference was made to the one fundamental recommendation relating to Information Governance and to the action being taken in this respect. Arising out of this discussion reference was made to the ongoing work being taken in relation to:
  - Access to the Council network/SAP

- the actions taken to ensure that access permissions were removed once an individual left the employment of the authority
- the facilitation of a Workshop of key stakeholders to identify key factors impacting on the delay incurred in the securing of legal agreements with M1 J36 business park developers. It was noted that a number of actions had been identified to take forward as key 'learning' points

**RESOLVED:**

- (i) that the issues arising from the completed Internal audit work for the first quarter along with the responses received from management be noted;
- (ii) that the assurance opinion on the adequacy and effectiveness of the Authority's Internal Control Framework based on the work of Internal Audit in the period to the end of June 2016 of the 2016/17 audit year be noted;
- (iii) that the progress against the Internal Audit Plan for 2016/17 for the period to the end of June 2016 be noted; and
- (iv) that the performance of the Internal Audit Division for the first quarter be noted.

**16. RISK MANAGEMENT ANNUAL REPORT 2015/16**

The Risk and Governance Manager presented, on behalf of the Service Director (Financial Services), his annual report outlining the progress made in 2015/16 towards the achievement of the goals set out in the Council's Risk Management Policy and signposting the further work to be undertaken in 2016/17.

The report provided assurances that the significant risks to the achievement of the corporate objectives had been identified and were being appropriately managed within a comprehensive Risk Management Framework.

It was noted that:

- The Risk Management Framework had been reviewed in 2016 and had been considered by this Committee at its meeting on the 22<sup>nd</sup> April, 2016
- The Corporate Assurance Group had subsumed the Risk Champion Group Terms of Reference and were now leading on the provision of assurance information that underpinned the Annual Governance Review. It was noted that two meetings had now been held and the new arrangements were working well
- The Risk Management Section now led on the provision of Insurance and Corporate Governance activities within the Council and benefited from an annual workplan
- All Risk Registers, both Operational and Strategic, had been revised during 2015/16
- The Councils Risk Profile had slightly increased and would be mitigated by direct liaison between Executive Directors and the Risk and Governance Manager

- Options were being considered in 2016/17, as part of wider financial savings initiatives for the replacement of or alternative to the current Risk Management Database
- The revised Annual Governance Review for 2014/15 had been completed and the subsequent Annual Governance Statement had been signed by the Leader and Chief Executive in 2015

Specific reference was made to the following:

- In response to detailed questioning, the Risk and Governance Manager outlined the issues that had led to the Risk Champion Group not meeting during 2015/16 and to the rationale for the revision of the Terms of Reference for the refreshed Corporate Assurance Group which now included the terms of reference of the Risk Champion Group
- It was noted that new performance indicators were being developed for 2016/17 following the decision not to participate in the Association of Local Authority Risk Management and CIPFA Benchmarking Club for Risk Management. The implications of this and the potential risks involved were discussed within the context of the Local Audit and Accountability Act 2014 and the need to appoint an external auditor for 2018/19 and beyond. The Risk and Governance Manager commented that Risk Management did not lend itself to quantitate benchmarking as, because of the differing nature of Local Authorities, it was difficult to compare to other public sector organisations. The Local Authority would, however, ensure that there was no impact on the ability to measure performance
- It was noted that the External Auditors (KPMG) had submitted a report to the Authority indicating that Risk Management procedures and processes in place gave the Authority appropriate assurance. A copy of this report could be provided for members of the Committee
- The Risk and Governance Manager responded to queries with regard to the loss of the Risk Improvement Fund and to other initiatives explored by the Service to investigate alternative funding streams to fund risk improvement opportunities/initiatives

**RESOLVED:**

- (i) That the Risk Management Annual Report for 2015/16 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 2016/17.

**17. EXTERNAL AUDIT REPORT - PROGRESS REPORT AND TECHNICAL UPDATE**

The Committee received the External Audit progress report and technical update for July, 2016, giving a high level overview of progress in the delivery of the External

Auditor's responsibilities. The report set out in the appendix a summary of the main deliverables including reports and opinions given and Members noted progress against those issues.

The following matters were highlighted:

- It was noted that no areas of concern had been identified
- The audit of the draft financial statements was on track with the intention of the issuing of the opinion before the deadline on the 30<sup>th</sup> September, 2016
- Reference was made to the results of the KPMG Local Government Budget Survey and in this respect particular reference was made to the potential implications of recent changes to pensions taxation in relation to Senior staff. Arising out of this discussion
  - the Director of Finance, Assets and Information Services commented on the current position with regard to proposals contained with the Enterprise Bill
  - Reference was made to the potential staff retention issues, to 'packages' that could be offered and to the potential implications for the Future Council in relation to the downsizing of the workforce
- There was a discussion of the changes introduced following the publication of the 2016/17 Better Care Fund planning guidance. It was noted that proposals were in place and discussions had taken place with both the CCG and the Health and Well Being Board

**RESOLVED** that the External Audit progress report and technical update for July 2016/17 be noted.

## **18. CORPORATE ANTI-FRAUD TEAM PROGRESS REPORT**

The Head of Internal Audit and Corporate Anti-Fraud submitted a report providing an overview of the work of the Corporate Anti-Fraud Team for the period 1<sup>st</sup> April to 30<sup>th</sup> June, 2016.

The report provided details of the following activities in which the Team were currently involved:

- Council Tax Support investigations
- Council Tax fraudulent liability claims – including the review of Single Person Discount
- Right to Buy investigations
- Corporate Investigations
- National Fraud Initiative involvement
- Tenancy Fraud
- Proactive work to review and revise fraud related policies and the development of E-Learning fraud awareness material

The report also gave details of the positive impact the Team was having in tackling fraud which was very much welcomed. It was noted that the Team's work was now

having significant results as initiatives were rolled out and became fully embedded within the Council's processes and procedures.

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

- Information was provided on the number of cases, workload and agencies in which the Team was involved
- Work was still progressing in relation to Single Person Discounts to identify council tax payers fraudulently claiming. To date, cancellations had resulted in an additional £321,947 Council Tax income being raised across the identified accounts. A further update would be provided for the September meeting of the Committee.
- Arising out of the above discussion, reference was made to discounts available for people living part of the year abroad. It was noted that the discount requirements were listed within statute
- Right to Buy applications were continuing to rise and in response to questioning, information was provided on
  - the eligibility criteria and discounts available
  - the liaison arrangements with other departments and agencies to identify potential fraud
- the work undertaken in relation to the National Fraud Initiative and the provision of information by the Council in relation to the 12 mandatory sets of data
- work was continuing with Berneslai Homes in relation to Tenancy Fraud and preparations were being made to process the first batch of cases for prosecution
- information on the E-Learning fraud awareness material could be provided for the November 'workshop' meeting

**RESOLVED:-**

- (i) that the progress made in the development of effective arrangements and measures to minimise the risk of fraud and corruption be noted; and
- (ii) that the Committee receive six monthly progress reports on internal and external fraud investigated by the Corporate Anti-Fraud Team.

**19. INTERNAL AUDIT REPORT ANNUAL REPORT 2015/16**

Mrs J Winham, Audit Manager, presented a report of the Head of Internal Audit and Corporate Anti-Fraud 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 2015/16 which had been prepared in accordance with recommended practice contained within the 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 audit bodies had been relied upon

The meeting noted that the Head of Internal Audit and Corporate Anti-Fraud 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 and whilst overall opinion was positive, some issues arising from the Internal Audit work in the year required Senior Management consideration. In general terms these related to the impact of Future Council and the implications of changed structures, new and changed systems and an increased workload for many managers which had impacted upon their ability to maintain reasonable and effective controls in some areas of activity. It had been accepted, and previously reported to Committee, that there had to be a change in risk appetite and it was important that senior managers remained alert to and focussed on maintaining appropriate risk based and effective framework of controls.

The implementation of audit report recommendations remained an issue as only 35% of recommendations had been implemented by the date agreed by management. In many instances this was largely as a result of the implications of embedding new operational and/or structural arrangements as part of Future Council. The monitoring of report recommendations would continue to be a priority for the Service.

In the ensuing discussion, and in response to detailed questioning, the following matters were highlighted:

- Information was provided on the major issues that had been identified throughout the year which had resulted in fundamental recommendations and the action which had been taken to address the issues raised
- Members again raised their concerns at the number of report recommendations which were not being addressed within the agreed timescales. In response, the Director of Finance, Assets and Information Services outlined the ways in which these concerns were being addressed via the Senior Management Team by the raising of the profile of audit report recommendations and by ensuring that Executive Directors were made aware of the due dates. Arising out of this discussion, it was suggested that such information should be included within future reports. It was also suggested that further consideration be given to 'overdue' responses at the next meeting and that, if required, Executive Directors be invited to future meetings to explain the action to be taken by their Service
- In response to questioning, it was explained that appropriate press releases were issued to highlight successful prosecutions for fraud and indeed one individual

employed by a public organisation had lost their job as a result of one such prosecution

**RESOLVED:-**

- (i) that the assurance opinion provided by the Head of Internal Audit and Corporate Anti-Fraud on the adequacy and effectiveness of the Authority's framework of governance, risk management and control be noted;
- (ii) that the key issues arising from the work of Internal Audit on the context of the Annual Governance Statement be noted; and
- (iii) that the satisfactory performance of the Internal Audit functions for 2015/16 be noted.

**20. DRAFT STATEMENT OF ACCOUNTS 2015/16**

The Director of Finance, Assets and Information Services submitted a report on the 2015/16 Statement of Accounts, the Council's sixth set of accounts prepared in accordance with International Financial Reporting Standards (IFRS).

The report indicated that the accounts had been submitted to the External Auditor (KPMG) on the afternoon of 30<sup>th</sup> June, 2016 in accordance with the statutory deadline. In addition, it was noted that there was no longer a requirement to submit them for approval to the Council prior to that deadline. This was primarily to enable additional time to prepare the accounts under the more complex and time consuming IFRS and to place public bodies on a similar reporting footing with the private sector.

The Council would receive the External Auditor's report on the accounts prior to the statutory deadline of 30<sup>th</sup> September, 2016.

The Summary of Accounts together with the Draft Statement of Accounts 2015/16 were appended to the Director's report. The report also outlined the main elements of the requirements of the International Financial Reporting Standards.

The Committee noted the significant work undertaken by the Service Director Finance's Team in relation to the preparation of the Statement of Accounts which was commendable given the restrictions on staffing within the Service.

Reference was then made to the following matters:

- It was noted that the format of the information provided was prescribed and based on the International Financial Reporting Standards as interpreted by the Code of Practice on Local Authority Accounting as this allowed comparisons to be made between differing local authorities and other bodies. This was different to the Local Authority's service and management structures (the management accounts) and the rationale for this was explained. These could be made available to Members of the Committee if required. Arising out of the discussion, reference



was made, particularly by the Independent Members, to the need for specific training on financial accounting so that Members had a better understanding on how the Statement was prepared and could question and scrutinise better any issues identified. It was suggested that an awareness/training session be held immediately prior to the December meeting

- In response to detailed questioning, the Director of Finance, Assets and Information Services explained the rationale behind the 'carry forward' figure. It was noted that the 'surplus' did not represent spare cash as the majority of in year surplus was as a result of one-off events during the year as well as scheme and project slippage
- There was a general discussion of the potential impact of Brexit which was still largely unknown
- Reference was made to the changes in debt recovery processes
- The Service Director Finance, in response to specific questioning made reference to the Trading Operations and particularly to those units with a greater turnover than £4m or a surplus/deficit greater than £1m. It was accepted that the report had been prepared in the required format but this was not particularly helpful and it was suggested, therefore, that they be accompanied by an explanatory note in future accounts
- Ms Wild explained the role of the External Auditor in the Statement of Accounts process
- Reference was made to the need for the Committee to be able to assure itself that the information presented was accurate. In response, the Service Director Finance stated that this information would be addressed within the forthcoming awareness/training session where an detailed explanation would be given on the different stages of the process and the gateways where integrity checks were made. The representative of the External Auditor then explained that the Finance Team regularly consulted on the preparation of the accounts and in such circumstances any inaccuracies would be identified as part of that process
- There was a discussion of the way in which the pension fund liabilities were calculated, managed and dealt with. A re-evaluation was being undertaken and discussions were continuing with the actuary. There were currently no issues of major concern
- It was noted that an update of the reserves position was being undertaken and a report on this would be provided for a future meeting

#### **RESOLVED:-**

- (i) that the Director of Finance, Assets and Information Services and Service Director Finance and their respective Teams be thanked for their hard work and dedication in producing the accounts on time and with reduced resources; and
- (ii) that the work that has taken place to prepare the Authority's Draft 2015/16 Statement of Accounts on an International Financial Reporting Standards basis be noted.

## **21. DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16**

The Chief Executive, Director of Finance, Assets and Information Services submitted a joint report on the Draft Annual Governance Statement 2015/16.

The Statement gave details of:

- The purpose of the Governance Framework
- The Governance and Internal Control Framework
- The process of annually reviewing the effectiveness of the Governance and Internal Control Framework
- The development and improvement issues arising from the Annual Governance Review to be addressed during 2016/17

The Draft Annual Governance Statement was appended at Appendix 1 and the 2016/17 Action Plan, which had been sent out as a supplementary agenda, was detailed as Appendix 2.

The Committee was given a brief resume of the key issues highlighted.

The review of the Authority's governance, risk and control arrangements in 2015/16 had not identified any fundamental issues and had confirmed the general level of compliance with the Council's Governance and Internal Control Framework remained good. The review process had taken into account the action taken against the control issues raised in the 2014/15. As the nature of some of the issues were of a longer-term nature, these remained in progress and had been carried forward into the 2016/17 list of issues. These related to:

- a) To further develop and embed a practical framework to assist in the effective governance and control of the Council's partnerships, contracts and general relationships with external organisations; and
- b) Improving the Council's Business Continuity Planning arrangements to ensure the Council and its key partners were able to coordinate a proportionate response in the event of a business continuity threat or emergency situation.

The whole process was underpinned by the context within which the Council was currently working, the financial and operational environment and the move to a new and improved organisational model which, in addition to creating new directorates and business unity in 2015 had been undertaken within the context of a challenging budget reduction of £28m.

The report went on to give details of the risk mitigations in relation to the successful delivery and embedding of the Future Council operating model and indicated that the risks to the successful delivery of this programme appeared to be in tolerance. It was important, however, to acknowledge the uncertainty regarding the need to allow the Council's new operating model to 'bed-down'.

It was noted that the Annual Governance Statement was one of the ways in which assurance was provided to residents and other stakeholders (including Partners) that the decision making processes of the Council had integrity. The process was supported by the provision of assurance information to all Service Directors details of which were outlined. Those Service Directors were then asked to confirm the receipt of this information, confirm the assurance information and agree to implement any identified recommendations with the published timescales. The Action Plan then produced captured all the issues raised through the review process and formed the basis for Audit Committee monitoring throughout the year.

The final Statement would be prepared for consideration by this Committee in September prior to the submission to the Council on the 29<sup>th</sup> September, 2016.

In the ensuing discussion, and in response to detailed questioning, the following matters were highlighted:

- The Risk Management Manager briefly ran through the actions contained within the Action Plan and in response to specific questioning referred to a meeting to be held with the Head of Strategic Procurement to discuss a corporate issue relating to non-compliance with Contract Procedure Rules and the overall adequacy of Contract Management Arrangements. Following that meeting, the Action Plan would be updated to reflect the agreed timescales to address issues identified.
- Reference was made to the role of this Committee in taking the lead in overseeing the Council's Risk Management framework arrangements and of receiving report of action taken and progress made. In this context comments were made particularly in relation to the completion of audit report recommendations by the agreed deadline which was not particularly good. The Director of Finance, Assets and Information Services confirmed, as previously reported, that steps were in hand to make the necessary changes to address these issues.

**RESOLVED** that the Draft Annual Governance Statement 2015/16 be noted.

## **22. AUDIT COMMITTEE WORK PLAN 2016/17**

The Committee received a report providing the indicative work plan for the Committee for its proposed scheduled meetings for the remainder of the 2016/17 municipal year.

In view of the next meeting being held on a Friday, it was suggested that the next training/awareness session be deferred from that meeting to the December meeting.

**RESOLVED:-**

- (i) that the core work plan for 2016/17 meetings of the Audit Committee be approved and reviewed on a regular basis; and

- (ii) that the training/awareness session planned for immediately prior to the September meeting be deferred to December.

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Chair