

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

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

## **62. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST**

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

## **63. MINUTES**

The minutes of the meeting held on the 23<sup>rd</sup> March, 2016 were taken as read and signed by the Chair as a correct record.

## **64. ACTIONS ARISING FROM THE PREVIOUS MEETINGS**

The Committee received a report detailing actions taken and arising from previous meetings of the Committee.

**RESOLVED** that the report be noted.

## **65. INTERNAL AUDIT QUARTERLY REPORT 2015/16 - QUARTER ENDED 31ST MARCH, 2016**

The Head of Internal Audit submitted a report providing a comprehensive overview of the key activities and findings of Internal Audit based on the Divisions work to the end of March, 2016.

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 2015/16
- 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 two fundamental recommendations relating to the adequacy of IT change

management control processes and compliance failures in relation to the administration of personal budgets.

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

Of the 29 recommendations followed up, 10% had been implemented by the original target date and a further 52% after that date. Eleven recommendations remained not implemented and had been given revised implementation dates.

In relation to the Audit Plan, slightly less than the profiled days had been delivered at the end of the fourth quarter.

Overall, Divisional performance remained satisfactory with only the chargeable time performance indicator being slightly less than target due to a higher number of special leave and training days.

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

- It was noted that issues relating to fraud were now picked up and addressed within the Corporate Anti- Fraud Team report which was to be discussed later in the meeting
- The low number of recommendations implemented by the original target date was disappointing and the reasons for this were discussed as were the actions taken to address the issue. It was noted that none of the cases raised any specific concerns. It was important to realise, however, that the implementation dates were agreed with the individual service but Internal Audit would ask for earlier implementation dates in the event of significant/fundamental issues being identified. Unrealistic dates might be attributable to an over ambitious desire to address issues identified. Many delays, however, were attributable to issues arising which were outside the service area control. In addition, the failure to implement recommendations was not attributable to the same service areas as if this were the case, the matter would be escalated to the Senior Management Team.
- Arising out of the above discussion, the Director of Finance, Assets and Information Services commented that the Senior Management Team now regularly programmed consideration of audit, finance and governance issues so that matters of concern could be addressed as a matter of urgency. The Director of Legal and Governance stated that issues identified would be dealt with via the appropriate Executive Director, in this way it was hoped that no 'regular trends' would arise and that there would be no need to escalate to this Committee for consideration. Arising out of this discussion, the Head of Internal Audit commented that procedures had been put in place to ensure that the Director of Finance, Assets and Information Service, Director of Legal and Governance and Service Director Finance had the necessary information to ensure that recommendations were implemented appropriately. These

procedures would also be reviewed to ensure that they remained fit for purpose

- The Head of Internal Audit's annual report would be submitted to the Committee meeting in June and would provide an overall opinion, details of the recommendations made and implemented and the performance of the function
- In relation to the limited assurance opinion with regard to IT change management and control procedures, it was noted that the issues identified via the audit were previously known and recognised by the Service which had commissioned a piece of work to review the issue and make recommendations
- With regard to Personal Budgets reference was made to the limited assurance in relation to identified shortfalls in compliance with established processes and controls. In addition, limited work had been undertaken to recover excess monies (around £47,000 at the time of the Audit) from service users and in relation to delays in issuing recharges to recover money due to the Council. These matters were now being addressed as a matter of urgency
- Following an analysis of creditor payment data matches arising from the National Fraud Initiative a recommendation had been made to improve the internal controls framework in respect of the creditor payments system. It was noted that £129,000 of duplicate payments had been identified. In response to detailed questioning the Committee was informed of how these issues had been identified, the reasons for them and the steps taken to prevent a recurrence. In response to specific questioning, an assurance was given that all duplicate payments had now been captured, tracked and appropriate action taken to recover the overpayments
- In quarter 4, there were three fundamental recommendations not yet completed and a revised target date agreed. Details of these were outlined but, in summary, related to
  - the allocation of roles regarding the SAP system
  - issues relating to Home to School Transport – it was noted that the Head of Service had also requested a further audit
  - Procedures relating to the control of small plant and equipment
- The Head of Internal Audit updated the Committee of the current position with regard to the recruitment to the posts of Senior Auditor and Auditor. It was noted that the Auditor post had been filled as at 15<sup>th</sup> February, 2016 but that the post of Senior Auditor was to be re-advertised. The Service was exploring various options to aid recruitment

#### **RESOLVED:**

- (i) that the issues arising from the completed Internal audit work for the fourth 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 March 2016 of the 2015/16 audit year be noted;

- (iii) that the progress against the Internal Audit Plan for 2015/16 for the period to the end of March 2016 be noted;
- (iv) that the performance of the Internal Audit Division for the fourth quarter be noted.

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

The Head of Internal Audit submitted a report providing an overview of the work of the Corporate Anti-Fraud Team for the period 1<sup>st</sup> October, 2015 to 31<sup>st</sup> March, 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.

The positive impact the Team was having in tackling fraud was very much welcomed and the Team's work was now beginning to have significant results as initiatives were rolled out. It was reported that since April 2015 a total of around £500,000 had been saved/recovered as a result of the work of Anti-Fraud initiatives and it was felt that this very much justified the Team's establishment.

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

- The number of cases, workload and agencies in which the Team was involved
- The number of referrals received particularly in relation to Council Tax Support was highlighted and it was noted that sometimes intelligence received was not sufficient to trigger an investigation
- A significant amount of work had been undertaken and there had been considerable success in relation to the pro-active data matching exercise to identify council tax payers who were erroneously or fraudulently claiming a single person discount. This had commenced in October 2015 and detailed statistics on the work of the Team in this area was provided. To date, 70 tax payers had indicated that they had declared date of change of circumstance was incorrect. This had resulted in the removal of discounts from earlier dates and an increase of £20,699 Council Tax being raised across the identified Council Tax accounts. A subsequent second verification exercise had established that a number of taxpayers had contacted the Council directly to cancel their Single Person discounts and that other accounts no longer required follow up due to financial records held by third party credit reference agency being updated. 1,177 accounts had been cancelled to date and an additional £321,947 Council Tax

income had been raised. It was noted that the review was not yet complete and an update would be included within the Annual Report to be submitted in June

- It was noted that, in relation to Right to Buy, following liaison with the RTB Team and the Council's Enforcement Unit, one sale had been stopped prior to a valuation being carried out and the second resulted in a saving of £27,360 (the value of the discount which would have applied)
- The Anti-Fraud Team had also assisted in identifying two properties that could be recovered due to non-occupancy
- It was noted that as the success of the Team grew in preventing Fraud, the 'savings' accrued would naturally diminish as the amount of fraud reduced
- In response to specific questioning, the ways in which investigations were undertaken and liaison between departments was outlined. It was noted that one member of staff had been dismissed for gross misconduct as a result of Single Person Discount Fraud. Any irregularities identified would automatically trigger an investigation
- Appropriate systems and processes were now being put in place to tackle fraud and it was noted that in relation to Single Person Discount in particular, fraud identified was not attributable to the failure of systems and processes but to individuals' dishonesty
- It was noted that through the National Fraud initiative and protocols in place with Electoral Registration, the 'rising 18's' were identified within households and this assisted in identifying Single Person Discount anomalies. In response to further questioning, however, the Director of Legal and Governance commented on the legal limitations on the use of the Electoral Register which could prevent the Authority using such a resource to assist in the identification of other types of fraud.

## **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.

## **67. STRATEGIC RISK REGISTER - FULL REVIEW MARCH 2016**

The Director of Finance, Assets and Information Services submitted a report presenting a draft report to be submitted to the Cabinet on the 18<sup>th</sup> May, 2016 on a review of the Strategic Risk Register undertaken in March 2016.

The report, which was presented by Mr A Hunt, Risk and Governance Manager 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 high level risks that were considered significant potential obstacles to the achievement of the Authority's Corporate Objectives. 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.

Following a review of the Strategic Risk Register in October 2015, a further review had been undertaken in March 2016 the outcomes of which were detailed within the report. Mr Hunt outlined in some detail the way in which the register had been reviewed together with the role of the Senior Management Team in this process. He commented on the main components of the review and the items included.

The report outlined:

- The key risks across the six 'concern' rating classifications
- The changes to the risks logged since the last review
  - The upgrading from 'amber 4 to amber 3' of risk 3034 'Failure to deliver the Medium Term Financial Strategy' in view of the uncertainties surrounding the Comprehensive Spending Review and Autumn Statement and the potential impact on future cuts arising from savings yet to be identified from the Chancellors statement in March 2016
  - The removal of risk 3030 'Failure to be prepared for an emergency response of business continuity threat'
  - The inclusion of risk 3792 'Failure to be prepared to assist in the event of an emergency resilience event in the region' and risk 3793 'Failure to ensure that appropriate disaster recovery arrangements are in place to ensure the Council is able to recover in the event of a business continuity threat or incident' as this gave a clear distinction between the two activities and mitigations proposed
  - The development and inclusion, following recommendation made at the last review, of risk 3794 'Failure to influence the governance arrangements underpinning and controlling the emerging City Region Deal Devolution Deal enable an appropriate blend of risk and reward for the Council'
  - Details of the average risk category score for the SRR from the 'Zero-based' review in March 2013
  - The slight variance in the average concern rating which was directly attributable to the changes to risk 3034 and the inclusion of the new risks
- The significant/red risks and new and emerging risks and the risk mitigating actions
- Other significant changes to the Strategic Risk Register

A further review of the Register was now programmed with other governance related reports relating to Corporate Finance and Performance management in order for the Cabinet to receive and consider governance related reports as a broad suite of documents.

The report and Register indicated how assurance against significant risk was being managed appropriately and Appendices to the report provided details of:

- The background to the Strategic Risk Register
- The worsened risks
- The 'direction of travel' trends
- The risks that had been completed/closed
- The new and updated risk mitigation actions
- A copy of the full Strategic Risk Register

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

- In relation to risk 3027 'Failure to manage organisational change – 'Risk of Destabilisation of the Organisation', details of the Employee Engagement: 'Tell Us What You Think' Month and Employee Survey, an analysis of and consideration of the results and feedback would be provided. It was noted, however, that this had been an extremely positive exercise
- No risks had been included in relation to the potential impact of Brexit. Arising out of this discussion the Director of Legal and Governance briefly commented upon the restrictions placed upon Local Authorities in relation to comments which could be made about issues upon which there was a Referendum within a 28 day period of such a Referendum
- One Member questioned whether or not cognisance had been given to the inclusion of a risk to take account of what was referred to colloquially as the LGA 'Graph of Doom' - the point at which Local Authority Spending became unsustainable as a result of the reduction in funding. The Director of Finance, Assets and Information Services commented that this was not strictly a risk but more a Financial Management matter
- Arising out of the above, and referring to risk 3034 'Failure to deliver the Medium Term Financial Strategy', it was noted that a full review was to be undertaken the results from which would be fed into the 17/18 four year plan
- Referring to risk 3303 'Failure to adapt the Authority into a sustainable organisation – Failure to maintain current services', questions were asked as to whether or not the Council had a methodology to assess how services were received by citizens. In response, the Director of Finance, Assets and Information Services, the Service Director Finance and the Director of Legal and Governance commented upon the surveys which had been undertaken both with staff and with residents. Arising out of this discussion, it was suggested that these matters should be reflected within the risk register
- Reference was made to risk 3025 'Failure to safeguard Service Users' and particularly in the light of issues arising within a neighbouring authority questions were raised regarding the paucity of information about children and mitigating actions and levels and assessments of risk. It was noted, however, that underpinning the strategic plan were individual department and service plans. In addition it was also important to note the Safeguarding Adults and Safeguarding Children's Boards roles in this area. Mr Hunt, however, stated that reference to these issues would be noted within the SRR.

**RESOLVED** that the report on the outcome of the recent review of the Strategic risk Register in relation to the management, challenge and development of the 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.

#### **68. ANNUAL GOVERNANCE REVIEW PROCESS 2015/16**

The Service Director Finance submitted a report which was presented by the Risk and Governance Manager providing the Committee with an update regarding the revised Annual Governance Review Process that had been determined for 2015/16 which would be used to influence and assist in the preparation of the Council's statutory Annual Governance Statement for 2015/16.

The report provided information on the background to the previous Annual Governance Review Process together with the reasons for change and gave details of the revised process together with the Local Code of Corporate Governance. It was noted that whilst there was no requirement to have a Local Code, its underlying purpose was to demonstrate the Council's commitment to high standards of corporate governance through the ARG process and also gave an assurance that the arrangements were effective.

**RESOLVED:**

- (i) That the revised Annual Governance process for 2015/16 be noted;
- (ii) That the revised Local Code of Governance be noted; and
- (iii) That outputs from the Revised Annual Governance Review process for 2015/16 be reported to the Committee later in the year where consideration can be given as to whether the process provides sufficient and suitable evidence and assurances upon which the Committee can refer the Annual Governance Statement for full Council approval in September.

#### **69. RISK MANAGEMENT FRAMEWORK REVIEW**

The Service Director Finance submitted a report providing the Committee with assurance that, following review, the Risk Management Framework remained fit for purpose prior to the Framework being considered and approved by Cabinet.

It was important that the Framework remain up to date in order to accurately reflect the effective and efficient management of risks to the achievement of the objectives. This was of particular relevance and importance given the Future Council programme. The Framework (including the Risk Management Policy Objective Statement and Risk Management Strategy) were key elements in the implementation



of good governance arrangements and formed key elements of the Council's Annual Governance Review process.

The report gave details of the contents of the Risk Management Framework and outlined the importance that the Risk Management Policy Objective Statement and Strategy in seeking to ensure that any significant risks that could impact upon the delivery of the Authority's objectives were appropriately managed in order to minimise the significant potential obstacles to the achievement of the corporate objectives. It also focused on the development of the Risk Management Policy Objective Statement and Strategy and the contribution this would make to the embedding of a risk management culture throughout the Council.

In response to questioning, the Risk and Governance Manager commented that issues for further consideration included the devolution proposals and the potential implications of Brexit.

**RESOLVED** that the assurances of the Risk Management Framework and the fact that it remains fit for purpose be noted and the report be referred to Cabinet for consideration and approval.

## **70. THE COUNCIL'S REVISED MINIMUM REVENUE PROVISION (MRP) POLICY**

The Director of Finance, Assets and Information Services submitted a report prefacing a report to be submitted to Cabinet on the 24<sup>th</sup> February, 2016 on the rationale behind the Council changing its MRP Policy which was approved by the Council on the 31<sup>st</sup> March, 2016.

The report gave details of the rationale behind and justification for the revision of the Policy which would solely adopt the annuity method of only repaying debt over the standard 50 year repayment period unless there was a more appropriate timescale suitable.

The changes were considered to be consistent with the statutory duty on the Council to make prudent provision, having regard to statutory guidance. In addition, they took account of the Council's strict and cautious approach to MRP to date as well as the Council's future financial arrangements. It was also reported that officers had worked up detailed modelling to reflect these changes and these had been incorporated within the Authority's final accounts position for 2015/16.

In the ensuing discussion reference was made to the following:

- The key driver for the changes introduced was to ensure consistency and standardisation
- An update on the progress would be provided within the Medium Term Forecast
- Reference was made to the current position with regard to PFI/BSF schools and to the potential implications for the authority of more schools pursuing academisation following the publication of the Government White Paper 2016.

It was noted that these issues had been raised with Government particularly in relation to the removal of local authority assets

- The Service Director Finance referred to the factors taken into account in revising the policy. These factors were also acceptable to the External Auditor KPMG and with the views of the Chief Estates Officer particularly in relation to local authority assets. They were also consistent with the approach of other Local Authorities

**RESOLVED** that the Cabinet report and decision of the Council in relation to the revised MRP policy for 2015/16 be noted.

## **71. RESERVES AND BALANCES UPDATE - JANUARY 2016**

Further to Minute 58 of the previous meeting held on the 23<sup>rd</sup> March, 2016, the Director of Finance, Assets and Information Services submitted a report updating the Committee of the reserves position as at January, 2016.

The report gave details of the current banked reserves and the Director gave a breakdown of the following matters:

- Unavailable – Statutory items – Minimum working balance, school balances, funding to cover anticipated liabilities including the Council’s down-sizing, insurance costs and sums set aside for the Council priorities such as the Town Centre redevelopment
- Unavailable – Investment Decisions – previously agreed by Cabinet following approval of the Council’s Reserves Strategy
- Available resources – including unallocated reserves previously reported in the 2014/15 audited position

She commented that a full review of the reserves would be undertaken as part of the refresh of the Council Reserves Strategy which would form part of the fully updated 2017/18 – 2018/19 Medium Term Financial Strategy to be reported later in the year.

It had also been considered prudent to bolster the Authority’s Minimum Working Balance (MWB) from its current level of £10m to £15 and the rationale for this was outlined. This amount equated to approximately 10% of the anticipated 2016/17 net spend budget and was considered appropriate and proportionate to the risks faced by the Council over the medium term.

The capital position had also been reviewed. The previous Reserves Strategy had identified “24.2m of investment decisions requiring capital investment which resulted in an oversubscribed position of £3.4m. Subsequently further unallocated capital receipts had been identified of around £3.2m resulting in a minor over-subscribed position of around £0.2m.

In the ensuing discussion reference was made to the following:

- A further explanation was provided of the rationale for the increase in reserves within the context of the move to the new business rates position and the volatility associated with potential income
- In response to detailed questioning, the Director explained that no information was available which would allow comparisons/benchmarking to be made with other authorities.
- Arising out of the above discussion the External Auditor commented on their approach to assessing the robustness of the proposals particularly in relation to Value for Money, contextual information and the Medium Term Financial Plan. One member made reference to information available via the Tax Payers Alliance but commented that this made no reference to contextual information
- The rationale for the following was outlined:
  - The Insurance Fund position. It was noted that this had been reviewed and that the value would reduce in future years.
  - The over achievement of 2015/16 savings with particular reference to the contribution to savings. It was suggested that a briefing/training session be provided on this prior to one of the meetings in months 1, 2 or 3 of the next municipal year
- The Director of Finance, Assets and Information Services reported that a further update of the Reserves Strategy would be provided in June/July. The Authority was currently in a healthy position with adequate reserves to assist in meeting its objectives and particularly in helping to grow the economy. The primary aim was to ensure the appropriate balance of funds for investment against available reserves

**RESOLVED** that the report and position with regard to reserves and balances be noted.

## **72. AUDITOR APPOINTMENTS BEYOND 1ST APRIL 2017**

The Director of Finance, Assets and Information Services submitted a report providing an update on the process for the appointment of auditor beyond 1<sup>st</sup> April, 2017.

**RESOLVED:**

- (i) That the report be noted; and
- (ii) That the intention of the Director of Finance, Assets and Information Services to submit an expression of interest to the Local Government Association to explore the possibility of participating in a sector let procurement exercise for the appointment of its auditor from 1<sup>st</sup> April, 2018 be noted.

## **73. EXTERNAL AUDIT - ANNUAL AUDIT FEE 2016/17**

Ms L Wild, representing KPMG, presented the External Auditor's Annual Fee Letter for 2016/17

The audit work and fee proposed was based on the risk based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd's published work programme and scales.

The fees were detailed within the letter together with a comparison to the fees for 2015/16 and an explanation of:

- the way in which fees had been calculated. It was noted that the Code of Audit Practice and audit fee was the same as the previous year (£135,998) with a slight increase in the fees for the certification of the Housing Benefit Grant Claim (£22,118 – an increase from £15,236). It was reported that as KPMG had not completed the audit for 2015/16 the audit planning process for 2016/17, including the risk assessment, would continue as the year progressed and fees reviewed and updated as necessary
- the redistribution of the Audit Commission Surplus – which was likely to be 15% of the scale fee
- the factors affecting audit work for 2016/17
- the certification work to be undertaken
- the assumptions made which have led to the assessment of the fees details of which were outlined within Appendix 1 to the letter

Further appendices to the letter provided details of the planned outputs with the indicative date for completion together with KPMG's the statement of independence.

**RESOLVED** that the Annual Audit Fee Letter for 2016/17 be received and the potential implications of the issues identified therein be noted.

#### **74. 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 2016/17 municipal year.

It was noted that prior to the first three meetings in the next municipal year, training/awareness sessions were to be held and any Member wishing to have an item raised should contact the Head of Internal Audit.

**RESOLVED** that the core work plan for 2016/17 meetings of the Audit Committee be approved and reviewed on a regular basis.

#### **75. OVERALL DEPT POSITION AS AT 31ST MARCH, 2016**

In response to a request from Members of the Committee, the Service Director Finance circulated a paper detailing the overall debt position for the Authority as at 31<sup>st</sup> March, 2016 with comparisons to previous years.

The Director of Finance, Assets and Information stated that this item would be placed on the agenda for the next meeting to enable Members to ask questions of the Service Director on any issues identified.

**RESOLVED** that the report be received and consideration thereof be deferred until the next meeting of the Committee.

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Chair

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