

BARNSELY METROPOLITAN BOROUGH COUNCIL**Audit Committee****16th July, 2014**

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

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

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

18. **Minutes**

The minutes of the meeting held on the 11th June, 2014 were taken as read and signed by the Chairman as a correct record.

19. **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.

RESOLVED that the report be noted.

20. **Draft 2013/14 Statement of Accounts**

The Director of Finance, Property and Information Services submitted a report on the 2013/14 Statement of Accounts, the Council's fourth set of accounts prepared in accordance with International Financial Reporting Standards (IFRS).

By way of background and in order to give Members an insight into the way in which the Statement was prepared and the factors considered in its preparation, the Assistant Director Finance, Financial and Business Support Services made a presentation outlining in detail:

- The Council's Statement of Accounts Process; and
- The key analysis of the Core Financial Statements for 2013/14

(a) The Council's Statement of Accounts Process – involved the following four Steps:

- Plan/Improve – consideration of
 - the ISA 260 Audit Recommendations – the key findings from the Audit
 - the Accounting Standards/Accounting Policies – a review of what has changed – this year issues centered on the Business Rate changes and Pensions
 - the Local Authority Accounting Panel (LAAP) Bulletins – including pensions issues referred to above
 - the South Yorkshire Authorities Accounting Group recommendations – in order to ensure consistency of approach
 - internal Audit Core System Reports – details of the issues discussed and addressed following the last meeting were outlined
- Implement and Track
 - Implementation
 - by the statutory deadlines of 30th June/30th September. It was noted that discussions were progressing to 'bring forward' the deadlines so that there was concurrency with the NHS deadlines
 - Implementation Timetable & Guidance – this detailed the 'critical path' of what happened 'where' and 'when'
 - Allocation of Key Tasks (including dealing with improvement areas)
 - Track
 - Progress measured against closedown timetable – including the mitigating actions taken when required
 - Early External Audit Liaison – particular reference was made to the excellent working relationship with KPMG
- Quality Assurance
 - Collective ownership – the importance of all being involved in this was outlined
 - The checking stages including
 - Stage 1 – pre-submission integrity checks – working papers – Core Financial Statements/Notes
 - Stage 2 – Final stage 'draft document' integrity checks – Arithmetic, cross referencing, ease of understanding
 - Stage 3 – Review by Director of Finance/Assistant Director Finance
- Audit
 - External Audit Field Work and Audit Plan – this was an intensive stage which usually lasted around three weeks and at which the implementation plan was agreed
 - BMBC Accounts Co-ordinator/Single point of contact
 - Audit issues logged on P2 (the Authority's Project Management system)
 - Emerging/Live issues/ISA260 Report including Auditor's Opinion by 30th September. It was unlikely that there would be any surprises because of the way in which the Audit was

managed and in view of the liaison with the External Auditor's KPMG

(b) Core Financial Statements – it was proposed to present additional information on this at a future meeting

- The Movement in Reserves Statement – total reserves had increased by £77m comprising usable reserves which had increased by £24m and unusable reserves which had increased by £53m. The Assistant Director briefly described the components of each of these elements
- The Comprehensive Income and Expenditure Statement – Headline figures for 2013/14 indicate a net deficit of £20m on Provision of Services, a reduction of 394m from a £114m deficit in 2013/14. There was no correlation between financial years. The reasons for this deficit were outlined, for example, in 2013/14 there had been the Penistone Grammar School conversion which represented a one off occurrence. In the next financial year, there could be around 8 Academy conversions
- The Balance Sheet – indicated a net worth of £72m. there was a decrease in Fixed/Non Current Assets of £43m, a reduction in Net Current Asset/Liabilities of £34m (mainly related to short term borrowing reductions) and reduction in Long Term Liabilities of £86m (largely relating to Pension Fund Liabilities)

Following the presentation, reference was made to the submitted report which indicated that the accounts had been submitted to the External Auditor (KPMG) on the afternoon of 25th June, 2014 in advance of the statutory deadline, of 30th June and in addition, 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 30th September 2014.

The Summary of Accounts together with the Draft Statement of Accounts 2013/14 were appended to the Director's report. The report also outlined the main elements of the Accounts, gave details of the consultation that had taken place together with the main elements of the requirements of the International Financial Reporting Standards.

The Committee noted the significant work undertaken by the Assistant Director Finance, Financial and Business Support Services and his Team in relation to the preparation of the Statement of Accounts which was commendable bearing in mind the staffing reductions that had taken place within the section.

In the ensuing discussion, the following matters were amongst those raised:

- In response to questioning, the current staffing levels were outlined and the Assistant Director described how such resources were allocated. He felt that despite reductions in resources, the service was still fit for purpose
- Arising out of the above, there was a discussion of the allocation of resources for audit work within a restricted financial climate and the balancing of potential risks that such restrictions brought. The External Auditor commented that the Authority had a good and proactive approach to managing changes year on year. The Authority was still considered to be fully compliant with all the relevant legislative requirements.
- The Assistant Director commented that if risks were identified appropriate resources would be allocated
- The current position with regard to the Digital Region Ltd was outlined particularly in relation to the liabilities of the Council. The costs of the closure of this project had been allocated accordingly
- Reference was made to the Authority's interests in a number of companies (detailed as 'Other Entities'). The relationship the Authority had with other related parties which were not disclosed elsewhere within the accounts was detailed and additional information on this could be provided if required
- In the light of plans being drawn up for Future Council, reference was made to the current position with regard to Pension Liabilities which had reduced compared to the previous year
- The current position with regard to Heritage assets was outlined
- The Council's involvement with and current position in relation to the Barnsley Miller Partnership, Barnsley Premier Leisure and the Joint Agency Group was outlined
- The operational overspend of £3.3m in the Children, Young People and Families Directorate was in line with what was expected. Details of the overspend in relation to the higher than budgeted costs of Looked After Children were outlined and details of the steps being taken to address these issues were provided. Reports were currently being considered by Cabinet to address this situation. It was not possible to say at this stage what the percentage of Looked after Children related to Unaccompanied Asylum Seekers, however, detailed information could be provided
- In response to detailed questioning, reference was made to the fees, charges and Specific grants which totalled 68% of the total income. Arising out of this discussion, reference was made to the income received from and the use of grants some of which had reduced significantly. The implications of any changes had been built into the Medium Term Planning process. Particular reference was made to the following:
 - Dedicated Schools Grant
 - Housing Benefit Subsidy
 - Education Support Grant
 - Council tax benefit grant

RESOLVED:-

- (i) that the Assistant Director Finance, Financial and Business Support Services be thanked for a most informative presentation; and;
- (ii) that the work that has taken place to prepare the Authority's Draft 2013/14 Statement of Accounts on an International Financial Reporting Standards basis be noted.

21. Draft Annual Governance Statement 2013/14

The Chief Executive, Director of Legal and Governance and Director of Finance, Property and Information Services submitted a joint report on the Draft Annual Governance Statement for 2013/14.

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 Evaluation which would have to be addressed during 2014/15

The Draft Governance Statement was appended at Appendix 1 and the 2011/12 Action Plan was attached 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 2013/14 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 2012/13 and indicated that in most areas sufficient progress had been made to adequately address the issues in question. 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 2014/15 list of issues. These issues related to:

- (a) The continued development and embedding of a practical framework to assist in the effective governance and control of the Council's partnerships, contracts and general relationships with external organisations. This was considered of increasing importance as the Authority moved forward with the Future Council programme
- (b) The continued development of a corporate Information Governance Strategy and associated policies/procedures and guidance for implementation across the Council

The whole process was underpinned by the context within which the Council was currently working, the financial and operational environment which would have a significant impact in 2014/15 and beyond. In order to address these

issues, the Council had developed the Future Council Programme and it was noted that the Future Council Improvement Strategy and Workforce Development Strategy had been approved by Cabinet in June 2014 in order to ensure that the Future Council would be achieved by April 2015. This matter had been identified as an emerging issue in 2013/14.

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 processes had informed by comprehensive self assessments and statements prepared by all Assistant Directors and the Action Plan contained all the issues raised through the review process and would form the basis for this Committee's monitoring during the year.

The final Statement would be prepared for consideration by this Committee in September prior to submission to Council on the 25th September, 2014.

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

- The ways in which the Council ensured compliance with, as well as improvement against the governance, risk and internal control framework were outlined.
- In response to further questioning, details of the role, work and Membership of the Corporate Assurance Group was provided
- It was not unusual that there were no significant new issues to report this year and that two had been carried forward into 2014/15. This was largely because the AGS only included 'high level' Corporate issues. Arising out of this discussion, reference was made to the way in which the 'lower level' issues were identified and appropriate action taken. A 'full list' of issues identified could be provided in order to provide the Committee with an assurance that the relevant issues were included within the AGS
- Reference was made to the working group that had been established to review the current arrangements to identify the areas where further work was required in relation to (a) above. It was noted that a detailed workplan was to be established to guide this review. It was noted that there was no Member involvement in this Working Group which was considered to be inconsistent given that Members were now heavily involved in Partnerships and were likely to be increasingly involved as the Future Council Programme developed. These concerns would be taken back for further consideration
- The concerns in relation to the lack of a timescale for the development of the Corporate Information Strategy and associated policies/procedures would be addressed. The Director of Finance briefly commented on the ways in which guidance for implementation would be disseminated throughout the Council and made reference to the training that would be provided to assist in this process

- Arising out of the above, there was a brief discussion of the IT Disaster/Recovery Plan details of which would be circulated to Members of the Committee for information and reference
- The ways in which Members (as well as staff) would be informed of the components and requirements of the Future Council Strategy and Workforce Development Strategy were outlined

RESOLVED that the Draft Annual Governance Statement 2013/14 be noted.

22. Audit Committee Draft Annual Report 2013/14

Further to minute 12 of the previous meeting held on the 11th June, 2014, the Committee received the final version Annual Report of the Audit Committee for 2013/14.

This was the seventy annual report and it illustrated how the Committee had successfully fulfilled its terms of reference and improved the Council's Governance and Control environments.

The report would be presented to the full Council and would be published on the Council's website as a demonstration of the Council's commitment to operate an effective Audit Committee.

RESOLVED that the Audit Committee Annual report 2013/14 be approved; and

RECOMMENDED TO COUNCIL that the Council receive the Annual Report 2013/14 and that it be published on the Council's website in order to demonstrate the Council's Commitment to operate an effective Audit Committee.

23. Audit Committee – Annual Self Assessment and Review of the Terms of Reference

Further to minute 13 of the previous meeting held on the 11th June, 2014, the Director of Legal and Governance and Head of Internal Audit and Risk Management submitted a joint report on the review of the Terms of Reference and on the results of the Self Assessment Review.

The self assessment exercise together with the review of meetings and business of the Committee during the year had confirmed that the Terms of Reference remained appropriate, however, the formal Terms of Reference had been changed to ensure compliance with the CIPFA latest recommended best practice guidance issues in 2013. Members were reminded that from the 1st April, 2014 Internal Audit had to follow the Public Sector Internal Audit Standards and the Local Government Application Note and this was now reflected in the proposed revised Terms of Reference which were appended to the report now submitted.

In relation to the Self-Assessment Review, four responses had been received from Committee Members which provided a reasonable basis for considering

the extent of compliance with best practice and whether any changes were required to the Terms of Reference and mode of operation. They had also been used to assess Members understanding and awareness of the Audit Committee duties and responsibilities and, therefore, contribute to the identification of future training needs.

These responses indicated that there remained a high level of compliance with recommended practice. In addition, the following two key issues had been identified as requiring further consideration:

- The need to consider a formal mechanism for receiving regular topical updates; and
- The need to consider issuing guidelines and/or a pro-forma concerning the format and contents of reports presented to the Committee

It was noted that a training programme for Members would be devised to deal with the issues raised.

RESOLVED that the responses to the Self Assessment questionnaire be noted and approved as key areas for development.

RECOMMENDED TO COUNCIL that the Terms of Reference as amended and detailed within Appendix A to the report now submitted be approved.

24. Internal Audit Quarterly Report 2014/15 – Quarter Ended 30th June, 2014

The Head of Internal Audit and Risk Management submitted a report presenting a comprehensive overview of the key activities and findings of Internal Audit based upon the Division's work to the end of June 2014 being the first quarter of the 2014/15 audit year.

The report covered:

- The issues arising from the completed Internal Audit work in the quarter incorporating, where appropriate, management's response to the recommendations made
- Matters that had required investigation
- An opinion on the ongoing overall assurance Internal Audit were 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 first quarter of 2014/15
- Details of Internal Audit's performance for the quarter utilising performance indicators

The report was presented by Mr J White (Audit Manager, Internal Audit) who indicated that the reports that had been issued during the period did not include any fundamental recommendations. The control weaknesses highlighted within

the reports issued were not collectively sufficiently serious to jeopardise the overall positive assurance opinion.

Of the six recommendations followed up 34% had been implemented by the target date. Of the remaining, a further 33% had been implemented after the original target date and 33% had been implemented after the revised target date.

A number of matters requiring investigation were still in progress and any control issues identified by Internal Audit had been highlighted for management attention.

The internal control assurance remained adequate based upon the results of the work undertaken during the quarter. There was a slight increase in the number of audit days spent against the profile days at the end of the quarter. Overall, Divisional performance remained satisfactory with only the chargeable time performance indicator being slightly less than target.

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

- There was a discussion of the audit planning process and the allocation of audit days particularly within the context of the follow up of report recommendations and the allocation of available resources. Arising out of this, reference was made to the ways in which Internal Audit ensured that the relevant areas and issues were identified and addressed
- The ways in which the audit of the use of the Disabled Blue Badge scheme was undertaken was outlined. It was noted that a joint review was undertaken by Internal Audit and the Police. This matter had been included within the Audit Plan 2013/14
- Mr White explained the liaison arrangements between Internal Audit and External Audit (KPMG) in the development of the Audit Plan and of the need to prioritise and focus on the Core Financial Systems
- Arising out of the discussion, the Director of Finance, Property and Information Services reminded Members that at the last meeting she had reported on the review of Internal Audit which was being undertaken by KPMG. Their report had just been received and a report on their findings would be submitted to a future meeting

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, 2014 of the 2014/15 audit year be noted;

- (iii) that the progress against the Internal Audit Plan for 2014/15 for the period to the end of June 2014 be noted;
- (iv) that the performance of the Internal Audit Division for the first quarter be noted.

25. Corporate Finance Summary 2013/14

The Director of Finance, Property and Information Services informed Members that the report summarising the 2013/14 draft revenue final accounts position for General Fund Services (including schools) was not available at this meeting. This report contained information that was now publicly available and detailed information which had been considered by this Committee previously. A copy of the report would be circulated to all Members shortly.

RESOLVED that the situation be noted.

26. External Audit – Protecting the Public Purse Fraud Briefing 2013

Ms L Wild, representing the Council's External Auditor (KPMG) presented their Fraud Briefing for 2013 entitled 'Protecting the Public Purse'.

The report detailed fraud detection performance compared to similar Local Authorities, reviewed the current counter fraud strategy and priorities, highlighting issues in relation to local and national fraud risks and reflecting on local priorities as a proportionate response to those risks.

She explained that this information had been provided by the Audit Commission and was publicly available via their website. Whilst this Briefing gave a general overview of the position with regard to fraud and fraud prevention, the way in which the findings could be interpreted was somewhat limited as the report did not give contextual information about, amongst other things, the size of the Council's that Barnsley was compared with and the individual Council's approach to the tolerance of fraud.

Reference was made to the following issues:

- The lack of fraud detection did not necessarily mean that fraud did not exist
- There were 106 cases of detected fraud in 2012/13 amounting to around £300,000
- In relation to Housing Benefit and Council Tax Benefit, there were 101 cases detected in Barnsley to the value of around £240,000 compared to the Northern average (Northern Metropolitan Districts and Unitary Authorities) of 266 cases to the value of £530,000
- There were no cases recorded for Barnsley in relation to Council Tax Discount Fraud, Right to Buy Fraud and Blue Badge Fraud
- In relation to Social Housing Fraud, 6 recovered properties had been recovered in Barnsley and a northern average of 11 recovered.

- In relation to internal fraud, there were 3 cases recorded to the value of £29,000 but compared to Northern Metropolitan Districts and Unitary Authority averages, there fewer cases in Barnsley but of a higher value
- Particular reference was made to the Fraud 'drivers'

In the ensuing discussion, the following matters were highlighted:

- The ways in which Barnsley tackled fraud and the checks in place were outlined. The Authority took a proactive approach to fraud and it was felt that the resources allocated were proportionate to the risks involved
- The liaison arrangement with other organisations/bodies were outlined and particular reference was made to the work undertaken with the Department of Work and Pensions
- Members were disappointed at the lack of contextual data provided by the Audit Commission as this limited the ways in which this information could be used
- Ms J Race (Principal Auditor) explained the way in which Blue Badge Fraud was investigated. A report had been submitted and approved by Cabinet earlier today which would lead to the introduction of an enforcement and prosecutions regime. It was noted that whilst the fraud associated with the Blue Badge Scheme was thought to be low (compared to the number of badges issued), a recent exercise had resulted in a number of badges being seized
- Questions were asked as to whether or not the relatively low levels of Council Tax/Housing Benefit Fraud etc. was because of the low mobility rates of the Barnsley population. Details statistical information could be provided
- It was noted that if fraud was detected it was always investigate and appropriate action taken
- The Authority was a Member of the West and South Fraud Investigation Group and a brief resume of the work of this group was provided
- It was noted that some cases might not be recorded officially as fraud as in some instances the Authority simply recovered the money owed
- In relation to Housing Benefit Fraud questions were asked as to whether the number of cases were similar in number with statistical neighbours (Wakefield)

RESOLVED that the report be received and Ms Wild be thanked for her presentation.

27. 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.

The Committee noted that:

- The next meeting was to be held at 2.00 pm on Friday 19th September, 2014 in order to deal with the Annual Governance Statement and Treasury Management Annual Report which were to be considered by Council meeting to be held in the following week. This would also give the Chief Executive and the Leader of the Council the opportunity of attending the meeting
- It had originally been intended to submit the External Auditor's report on the South Yorkshire Digital Region Ltd to this meeting, however, this had not been possible. Discussions would be held with the Director of Finance, Property and Information Services on the most appropriate time for its submission – possibly the next meeting. It was important that the report was submitted to all four South Yorkshire Authorities within the same 'time frame'.

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

Council Governance Unit

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Chairman