



BARNSELY METROPOLITAN BOROUGH COUNCIL

Audit Committee

5th November, 2014

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

42. **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.

43. **Minutes**

The minutes of the meeting held on the 19th September, 2014 were taken as read and signed by the Chairman as a correct record.

44. **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 3.00 pm immediately prior to the meeting scheduled for 21st January, 2015. If any Member had a particular issue they wanted covering specifically, they were asked to contact the Director of Finance, Property and Information Services.

RESOLVED that the report be noted.

45. **External Audit Annual Audit Letter 2013/14**

The Committee received the Annual Audit Letter for 2013 prepared by KPMG, the Council's External Auditor, summarising the key messages from the audit and commenting on the financial statements and the Value for Money Conclusion.

The External Auditor commented that all matters highlighted within the report had been discussed previously by this Committee and, there was, therefore, nothing additional to report. Specific reference was made to the additional pieces of work which had been undertaken during 2013/14 which included work on:

- Digital Region Ltd – on behalf of all four South Yorkshire Authorities
- The review of the Internal Audit function

- Review of the Trading Company – the transfer of some back office and social services functions into new trading models.

All reports in relation to these issues had been discussed and agreed with appropriate officers.

An appendix to the report detailed the fees charged against the planned fees and outlined the reasons for the variance which related to the additional work undertaken and also the response to two elector challenges and the work required as a result of there being no certification of the national Non-Domestic Rates Return.

In issuing an unqualified Value for Money Conclusion, the Auditor was satisfied that proper arrangements were in place for securing financial resilience and challenging how to secure economy, efficiency and effectiveness. Whilst two significant risks had been identified, arrangements had been put in place to mitigate these. An unqualified opinion had been issued on the financial statements on the 25th September, 2014 and in relation to these, the triennial pension revaluation had been identified as a specific risk area for 2013/14, however, audit testing had not identified any issues.

The annual Governance Statement had been reviewed and was consistent with the Auditor's understanding of the Authority. There were no issues to raise in relation to the Whole of Government Accounts as the Authority's consolidation pack was consistent with the audited financial statements. In addition, no high priority recommendations had been raised as a result of the 2013/14 audit work.

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

- The calculation of the audit fees and the implications for the Authority. It was noted that the fees were likely to reduce in the region of 25% from 2015/16 and the rationale for this was explained
- Particular reference was made to the additional audit fees incurred in relation to the Digital Region Ltd and it was noted that this fee was that element allocated to Barnsley. This equated to ¼ of the total fees and the reason for the apportionment of fees in such a way was outlined. In response to questioning about the total costs incurred arising from the cessation of the Digital Region Ltd, the Director of Finance, Property and Information Services agreed to provide exact details of the overall costs involved.
- There was a brief discussion of the additional work incurred in relation to the establishment of new Trading Models and it was noted that various reports had been submitted to Cabinet on this matter. The final report on their establishment was anticipated within the next few weeks and details could be provided for this Committee.

RESOLVED:

- (i) that the report and presentation of the key findings from the External Auditor be received; and

- (ii) that the Committee place on record their thanks and appreciation of the services of Mr J Cornett and Ms L Wild in undertaking the audit.

46. Internal Audit Quarterly Report 2014/15 – Quarter Ended 30th September, 2014

The Head of Internal Audit and Risk Management submitted a report providing a comprehensive overview of the key activities and findings of Internal Audit based on the work of the Division to the end of September, 2014.

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 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 second quarter of 2014/15
- Details of Internal Audit's performance for the quarter utilising performance indicators

The report indicated that reports had been issued during the quarter included one fundamental recommendation relating to the absence of personal recruitment information which was required in order to comply with the National Minimum Standards for Adoptions. The control weaknesses highlighted were, however, not collectively sufficiently serious to jeopardise the overall assurance opinion.

Of the 19 recommendations followed up, only 2% had been implemented by the target date, 16% had been implemented after the original target date and 11% by the revised target date. 5% had been implemented after the revised target date and a further 57% had not been implemented and a future revised date had been agreed.

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

The internal control assurance remained adequate. There was a slight increase in the number of BMBC audit days spent against the profile days at the end of the quarter shortfall of days against the overall plan which was attributable in the main to the unplanned time required to meet the corporate requirements of the Future Council process.

Overall, Divisional performance remained satisfactory with only the customer feedback, chargeable time and issue of reports Performance Indicators being slightly below target.

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

- There was a detailed discussion of the issues relating to outstanding recommendations which was of particular concern to this Committee as it was felt that should this trend continue, the overall assurance regarding the effectiveness of the control, risk and governance framework would be undermined.
 - The potential reasons for the delay were outlined.
 - It was acknowledged that Internal Audit was taking a very proactive approach in this matter in chasing up outstanding recommendations (including raising issues within SMT and within Departmental Management Teams) but it was noted that a one of the reasons for the delay could be the increasing pressure faced by management in having to priorities time towards Future Council
 - Reference was made to the need for this Committee to be kept informed of the reasons for the delay in responding to recommendations. It was noted that the Committee had the option to require Executive Directors/Senior Managers to attend this Committee to give an explanation of the delays
 - This matter should be included on quarterly Departmental Management Team agenda when Governance issues were discussed
 - The Director of Finance, Property and Risk Management stated that this matter would be raised for discussion at a forthcoming Senior Management Team meeting
- Reference was made to the implications of the unplanned Audit assignments which had been incorporated into the Internal Audit Plan
- There was a discussion of the use of the feedback questionnaires and of the need to ensure that an increasing number were returned and the findings analysed to ensure improvement in service provision
- It was noted that a satisfactory response had been received to the fundamental recommendation in relation to Children, Young People and Families: Safer Recruitment and the placement of documentation on employee personnel files
- Information would be provided for Members of the Committee in relation to the Ofsted Evidence Bank in the Children, Young People and Families Directorate
- The Head of Internal Audit and Risk Management outlined the current position with regard to the outstanding recommendations in relation the Adults and Communities Care Package and Payment System and particularly as this related to the recovery of overpayments

RESOLVED

- (i) that the issues arising from the completed Internal audit work for the second 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 September, 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 September 2014 be noted;
- (iv) that the performance of the Internal Audit Division for the second quarter be noted; and
- (v) that this Committee place on record it's disappointment and concern at the lack of response to outstanding recommendations and looks forward to a significant improvement and that an update report on progress be made to the meeting to be held on the 10th December, 2014.

47. Public Sector Internal Audit Standards – Proposals for Undertaking External Assessments

The Head of Internal Audit and Risk Management submitted a report outlining the benefits of, and seeking approval to, the proposed arrangements for undertaking the external review of the Council's Internal Audit Function as required by the Public Sector Internal Audit Standards.

It was noted that following detailed discussions between the Heads of Internal Audit across South and West Yorkshire the consensus was that some form of Peer Review should be adopted and to this end, an Appendix to the report detailed the benefits of such an approach. The report also detailed the pros and cons of adopting such a system.

The Public Sector Internal Audit Standards required that external reviews be undertaken every five years with an expectation that the first review would be undertaken by 2016. Subject to the acceptance of a peer approach, as now recommended, by all South and West Yorkshire Authorities, a timetable would be drawn up detailing when such reviews would be completed. Following the completion of the first round of reviews, an evaluation of the process would be undertaken to inform views for how and by whom future external reviews would be undertaken.

The following matters were raised:

- There was a discussion as to whether or not a 'peer approach' would be as rigorous as a fully independent external review. The Head of Internal Audit and Risk Management gave an assurance of the rigour

of such an approach and stated that the Director of Finance, Property and Information Services would report to Committee on the findings rather than the service itself

- It was suggested that one of the Independent Audit Committee be invited to participate in the process as an 'expert' by becoming a 'Champion'
- It was noted that one 'additional safeguard' within the process would be the Council's External Auditors who would, no doubt, raise any issues of concern in relation to the performance of Internal Audit. Arising out of the above, Mr J Cornett, representing KPMG, commented on the relationship between External and Internal Audit and their respective roles
- In response to concerns expressed, the Director of Finance, Property and Information Services stated that the issue of robustness of the process would be kept under review and, if necessary, changes would be made to the review process if required following the assessment of the operation first review

RESOLVED that the proposed arrangements for the review in order to meet the requirements of the Public Sector Internal Audit Standards be accepted in order to provide the necessary external assurances on the effectiveness of the Council's Internal Audit Service.

48. Strategic Risk Register – Full Review September, 2014

The Director of Finance, Property and Information Services submitted a note presenting a report to be submitted to Cabinet on the 19th November, 2014 on a full review of the Strategic Risk Register undertaken in September 2014.

The report, which was presented by Mr A Hunt, Principal Corporate Risk Management Officer, formed part of the Committee's assurance process where it was agreed that following the completion of the review of the Strategic Risk Register, the Committee consider the latest version and provide appropriate comments thereon.

The Register contained those risks that were considered significant potential obstacles to the achievement of the Authority's Corporate objectives. The Director commented that it was important that the Register remain up to date and be reviewed regularly in order to accurately reflect the most significant risks to the achievement of objectives and facilitate timely and effective mitigations to those risks.

Following a review of the Strategic Risk Register in February, 2014, a full review had been undertaken in September 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 and involvement of the Senior Management Team in this process. He commented on the main components of the review and the items included.

The September 2014 review had included consideration of the following:

- the correct expression of risk
- the level of 'concern' for each risk
- the existing and new risk mitigation actions
- the Future Council activity

The report then went on to outline:

- those risks that had worsened since the last review
- those risks that had improved since the last review
- the key risks and the distribution of the risks across the six 'concern' rating classifications
- the mitigation actions that were now complete or where new or significantly updated risk mitigation actions had been identified for particular risks
- the risks that had been allocated a 'red' rating

A further review of the Register would take place in March 2015 which would focus on changes to the structure of the Council as a result of Future Council activity as well as considering the impact of this, along with the progress made regarding the CSO programme against risk 3033 (Failure to adapt the Authority into a sustainable organisation - Failure to maintain current services). It was also reported that the Senior Management Team had discussed this risk and risk 3023 (Failure to engage with Stakeholders) as more granularity was required to acknowledge the subtle links between the CSO programme, the engagement of stakeholders and the developing Future Council.

The report and Register indicated how assurance against significant risks was being managed appropriately and Appendices to the report provided the completed risk mitigation actions together with copy of the full Strategic Risk Register.

The Register listed those significant risks that could impact on the Authority's objectives as set out in the Corporate Plan as this ensured that the register was focused on those risks that were considered to be significant potential obstacles to the achievement of the corporate objectives. In addition, the report focussed on the further development of the Register and the contribution this would make to embedding a risk management culture throughout the Authority.

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

- risk 3025 – Failure to safeguard vulnerable service users – particular reference was made to child protection issues. Mr Hunt stated that this matter was being addressed but he would ensure that this matter was specifically picked up
- there was a discussion of what constituted a strategic risk which, by their very nature could nearly always be 'red'. It was important to note, however, that red risks indicated the potential impact of a risk rather than necessarily the probability of such a risk occurring. The need to

accept a degree of risk and to balance those risks within the context of the reducing finance available to the Authority was discussed.

Reference was made to the changing approach to how strategic risks were managed. Mr Cornett, representing the External Auditor, KPMG, commented that a similar approach was being adopted by other clients. The approach was, he felt, three fold:

- were the risks tolerable/acceptable
- how would those risks be managed
- how were the risks monitored

this strategy would enable the authority to focus on areas of greatest importance and to live with 'acceptable' risk because the probability of an event occurring was relatively low. Arising out of the discussion the Head of Internal Audit and Risk Management made reference to the introduction in 2013 of a 'Concern' level for each risk which provided a qualitative assessment and gave the risk owner the opportunity to consider a dynamic element for each risk rather than focussing on the traditional probability and impact assessments

- the arrangements for discussing the Strategic Risk Register with the Chief Executive and her professional input into this process were outlined
- it was noted that not all risks would be included within the Strategic Risk Register, only those of a Corporate/Strategic nature. Many service risks would be included within Departmental Risk Registers and the links and differences between the two documents was outlined.
- Reference was made to risk 3026 – Failure to achieve a reduction in Health Inequalities within the Borough and to the action being taken to address this issue

It was noted that this draft report would be submitted to Cabinet on the 19th November, 2014 and any issues of concern raised by this Committee would be addressed within the finalised report to be presented.

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.

49. External Audit 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.
- An Appendix to the report provided details of the Audit deliverables for 2014/15

The progress report indicated that work was complete on the Financial Statements and on Value For Money and detailed the current position with regard to the Certification of claims and returns and other work. Particular reference was made in this regard to the current position with regard to discussions with appropriate officers on the Certification of the Teacher's Pensions Return

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 National Audit Office consultation on the Draft Code of Audit Practice for the audit of local public bodies
- The recent consultation on the simplification and streamlining of the presentation of local authority Financial Statements

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

50. Recruitment of Independent Members – Update

The Head of Internal Audit and Risk Management gave an update on the current position with regard to the recruitment of Independent Members to fill the two vacant positions.

It was noted that the positions were to be advertised in local and regional papers shortly following which there would be a formal interview process.

RESOLVED that the update be received.

50. 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.

Particular reference was made to the time of the December meeting which would now be held at 2.00pm instead of 4.00pm and to the Awareness/Training Session to be held at 3.00pm immediately prior to the meeting scheduled for the 21st January, 2015 which would focus on Information Governance and related issues

Mr J Cornett representing the External Auditor KPMG stated that as the next meeting was to be held within a short space of time, there would be very little to report on his progress report and technical update. Instead he proposed

producing a 'horizon scanning' report detailing issues likely to be facing the Council over the next 12 months from an External Audit perspective.

RESOLVED:

- (i) that the core work plan for 2014/15 meetings of the Audit Committee be approved and reviewed on a regular basis; and
- (iii) that the proposal of the External Auditor to produce a 'horizon scanning' report for the next meeting be approved.

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Chairman