

BARNSELY METROPOLITAN BOROUGH COUNCIL**Audit Committee****25th March, 2015**

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

In attendance, at the invitation of the Chair, Ms K Armitage and Mr P Johnson (prospective Independent Members)

73. **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.

74. **Ms C Evans and R Lancaster**

Ms C Evans and Ms R Lancaster from the Corporate Audit Fraud Team were welcomed to this, their first meeting of the Committee.

75. **Minutes**

The minutes of the meeting held on the 21st January, 2015 were taken as read and signed by the Chairman as a correct record.

76. **Recruitment of Independent Members – Update**

The Director of Legal and Governance reported on the recruitment exercise undertake to fill the current two Independent Member vacancies on the Committee.

A number of potentially suitable and highly qualified candidates had been interviewed by himself, the Chair and the Head of Internal Audit on the 6th February, 2015 and the Chair sought Members approval to recommend to Council on the 2nd April, 2015, the appointment of the two successful candidates, Ms K Armitage and Mr P Johnson.

RECOMMENDED TO COUNCIL ON 2ND APRIL 2015:

- (i) that following interview by an Appointment Panel chaired by Councillor T Sheard, Chair of the Audit Committee, Ms K Armitage and Mr P Johnson be appointed as Independent Members to the Audit Committee to fill two existing vacancies and;
- (ii) that following the appointment of the Independent Members the quorum of the Audit Committee be reinstated to require at least 2 Elected Members

and 3 non-elected Members to be present for the duration of the meeting for that meeting to be quorate.

Ms K Armitage and Mr P Johnson were then formally welcomed in an observer capacity to this meeting

77. Internal Audit Charter and Strategy 2015/16

The Head of Internal Audit submitted a report prefacing the annually reviewed and revised internal Audit Charter and Strategy which had been considered within the context of the requirements of the Public Sector Internal Audit Standards that had become effective from 1st April, 2013.

The review of the Charter and Strategy reflected the current working arrangements of the function but also the aspirations and developments necessary to ensure continuous improvement. The Charter and Strategy would be made available to all employees through the Service's Internet site.

The Charter and Strategy had been updated to take account of the changes arising from the increase in client base and the new structure of the Service following a fundamental review through the Future Council Programme. It was also noted that the integration of the Joint Secretariat Internal Audit Service within the BMBC Internal Audit Service had been fully completed in 2014/15.

The Internal Audit Team provided services to the Authority, Berneslai Homes, the South Yorkshire Police Commissioner, the South Yorkshire Police Chief Constable, the South Yorkshire Fire and Rescue Authority, the South Yorkshire Pensions Authority, the Sheffield City Region Combined Authority and, from April 2015, the South Yorkshire Passenger Transport Executive. This latter client had been secured through a competitive tender process and now meant that Internal Audit coverage was now virtually split 50:50 between the Council and non-Council clients.

The report in summarising the key changes outlined the key aspects of the Charter and Strategy and particular reference was made to the establishment of the Corporate Anti Fraud Team within the Internal Audit Service and to the type of work which would be undertaken.

It was reported that the Charter and Strategy would undergo an annual review to ensure that they remained reflective of current working arrangements but also highlight developmental areas where the service was likely to change to meet changing operational or audit industry requirements. The document would also serve as a reference for the Committee on how the Internal Audit function was organised and managed.

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

- There was a discussion of the way in which the service was organised particularly in relation to the work undertaken for other authorities/bodies and to whether or not this had implications for the Authority in terms of

reduced assurance. Reference was also made to the ways in which contracts were drawn up which was either by tender or by Service Level Agreement. In response the Head of Internal Audit commented that such work would only be undertaken where there was a clear benefit in terms of operational synergies, economies of scale, service continuity and staff development. Consideration was always given to ensure continuity and quality of service to existing clients and particularly the Council. It was also noted that income generated had contributed significantly in assisting in staff retention at a time of severe financial restrictions. The move to a business like approach was not without risk as the Service had a duty of care to its clients, however, it was considered that this approach was appropriate and manageable

- The role of the Corporate Fraud Team was outlined
- The current structure and staffing of the Service was referred to and the ways in which the overall impact of the budget changes would be monitored was outlined.
- The Head of Internal Audit was satisfied that despite the changes in service, he could still provide overall audit assurance opinion
- There was a discussion of the Future Council arrangements and to the move towards a more business like approach involving the creation of business units
- It was noted that the Council carried all the appropriate indemnity insurance for work undertaken for external organisations/bodies
- The Head of Internal Audit was confident that the number of audit days allocated could be met
- The Service Director Finance stated that it might be appropriate to provide the Committee with additional information on the business units/trading bodies

RESOLVED:-

- (i) that the internal Audit Charter and Strategy be noted; and
- (ii) that the Committee place on record that it is satisfied that the Internal Audit Charter and Strategy represent and describe the function and that the delivery of the Strategy supports the assurances the Committee receive from Internal Audit regarding the effectiveness of the function.

78. Corporate Anti-Fraud Team Strategy

The Head of Internal Audit submitted a report outlining the Corporate Anti-Fraud Team's Strategy in delivering a corporate anti fraud function. A copy of the Strategy was appended to the report.

It was reported that the Strategy reflected the working arrangements of the function which had been structured to reflect the emerging corporate risks and target investigative resources more efficiently and effectively.

The report, in outlining the key aspects of the Strategy indicated that a detailed operational work programme had been developed to ensure the resources of

the Corporate Anti-Fraud Team were utilised in an efficient, effective and accountable way. The detailed work programme would be reviewed on an on-going basis to reflect fraud trends, emerging risks and general workload.

The report outlined the financial implications arising from the establishment of this Team which had been included within the costs of the Internal Audit Function. In particular the focus of the Team and for Internal Audit would be to ensure that costs of controls were kept to an absolute minimum given the financial pressures on the Council and on all other client organisations.

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

- There was a discussion of the various types of activities in which the Team would be involved. Although initially focussing on investigating non-benefit and local taxation fraud the Team would have responsibilities for a wide variety of investigations and these were outlined in detail within the Strategy document
- The way in which the Team would be funded following the cessation of the DLG funding in 2015/16 was outlined
- Reference was made to the operation of the Whistleblowing Policy and the role of the Head of Internal Audit and Director of Legal and Governance in this. It was noted that the annual review of the operation of the policy would be submitted to the next meeting
- The Head of Internal Audit and Director of Legal and Governance outlined the legislation which the Council and the Team used in pursuing the investigation of fraud. Arising out of this, reference was made to use of repayment plans and to referrals made to the South Yorkshire Police for cases of serious fraud.

RESOLVED that the Corporate Anti-Fraud Team Strategy be received and a 6 monthly update and progress report be submitted on the delivery of the Strategy and the success in identifying and responding to incidents of alleged or actual fraud, bribery, corruption or general irregularity

79. Annual Governance Review Process 2014/15

The Service Director Finance submitted a report providing a update on the revised Annual Governance Review process that had been determined for 2014/15 which would influence and assist in the preparation of the Council's Statutory Annual Governance Statement for 2014/15.

The report, which was presented by the Principal Corporate Risk Management Officer, gave details of the previous AGR process and the revised process together with the reasons for the change which was largely more proportionate, streamlined and less of a burden for Service Directors to complete.

The report gave details of how the Annual Governance Review would be undertaken and indicated that the Annual Governance Statement (and associated overarching AGS Action Plan) would be developed and considered

by the Senior Management Team prior to consideration by this Committee and subsequently by Council in September, 2015.

The report went on to indicate that whilst there was no longer a statutory requirement to have a Local Code of Corporate Governance, one was, nevertheless, still produced as it demonstrated the Council's commitment to high standards of Corporate Governance and through the AGR process gave the assurance that the arrangements were effective. The Local Code and its six key principles was appended to the report. This Code would also be reviewed annually as part of the overall review of the Annual Governance Review process and any actions arising from this would be included in the AGS Action Plan and monitored by this Committee.

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

- The ways in which Executive Directors and Service Directors would be held to account within the revised process were outlined.
- The rationale behind the need for the revision of the process was explained as was the role of Internal Audit in ensuring that such processes were robust. It was felt that governance processes would improve, assurances given would be based on evidence and it was confirmed that Service Directors would be held to account.

RESOLVED:-

- (i) that the revised Annual Governance Review Process for 2014/15 be noted;
- (ii) that the revised Local Code of Corporate Governance be noted; and
- (iii) that outputs from the revised Annual Governance Review process for 2014/15 be reported to the Committee later in 2015 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, 2015.

80. Treasury Policy and Strategy Statements 2015/16

The Head of Technical Services presented a report of the Director of Finance, Property and Information Services submitted on the 2015/16 Treasury Policy and Strategy Statements 2015/16 (including the Annual Investment Strategy) for information and comment which had been approved by the Council at its meeting on the 26th February, 2015.

The Treasury Policy Statement for 2015/16 and the Treasury Strategy Statement 2015/17 were appended to the Director's report and both had been prepared in compliance with the revised code issued by CIPFA.

Particular reference was made to the following:

- The role of the Treasury Management Panel in ensuring that the strategy was appropriately and efficiently implemented
- The scrutiny, prior to the meeting, by Councillor Barnard on behalf of this Committee. It was noted that a 'vacancy' currently existed for an Independent Member to assist in this process and nominees to this position were invited
- The borrowing requirements of the Authority and Borrowing Strategy details of which were appended to the report
- The investment strategy. Particular reference was made to the way in which the Authority ensured that appropriate investments were made and that capital was secure. It was noted that the liquidity of the Councils investments and the yield earned remained important but was a secondary consideration
- Referring to Gross Debt and CFR, it was suggested that in future this include comparators to previous years
- In response to questioning, and particularly within the context of fraudulent activities as discussed earlier in the meeting, the Head of Technical Services and Director of Legal and Governance reported on the ways in which risks were addressed and managed. It was noted that low volume fraud could have a high value and reputational impact
- The Head of Technical Services referred to the Treasury Management work undertaken for other organisations/bodies
- Reference was made to the Minimum Revenue Provision Statement detailed within Appendix E of the report which was required to be submitted for approval to the Council before the start of the 2015/16 financial year. The Service Director Finance explained the rationale behind each option and stated that he would submit, within the context of the current financial climate, a further report on this matter.

RESOLVED that the Treasury Management Policy and Strategy Statements 2014/15 be noted.

81. External Audit Reports

(a) 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 issued certain deliverables including reports and opinions and a summary of progress made against these deliverables was appended to the report
- Gave details of the KPMG/Shelter research paper on the need to tackle the current housing shortage which, if not addressed, could see house prices

quadruple within 20 years. The report called for politicians to commit to a range of key measures to address the issue

- 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 risk based audit planning for the 2014/15 audit of the financial statements and Value for Money conclusion had been completed. The Audit Plan for 2014/15 was to be the subject of a report later in the meeting.

In relation to the Financial Statements, the interim audit on site had taken place on the 24th February and the Value for Money arrangements were currently being reviewed and a report on any findings would be submitted to a future meeting.

Work on the Value for Money conclusion had, as previously reported, commenced and would be concluded during the final accounts visit in July/August with the conclusion being issued by 30th September, 2015/

The Housing Benefit and Council Tax Benefit Claim was the only grant remaining under the Audit Commission regime and, resources permitting, the audit would commence in June 2015 with a report being submitted before the deadline of 30th November, 2015.

In relation to other work, work was being undertaken on restructuring of subsidiary groups and the Bull TCL contract termination which would require an additional fee of £16,250.

The Technical Update outlined:

- The Value for Money briefing on expenditure on Looked After Children
- The launch, by the Department of Health, of a tool to help Council's compare care performance on social care
- The publication by the Audit Commission of their report 'Protecting the Public Purse' further information on which was to be considered later on the agenda

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

(b) External Audit Plan 2014/15

Ms L Wild, representing KPMG, the Council's External Auditor submitted a report supplementing the Audit Fee Letter, describing how External Audit would deliver the financial statements and audit work for the Council and setting out the approach to Value for Money work for 2014/15.

The report included:

- the headline messages focussing on the audit approach, the key risks identified within the financial statements
- the approach of the audit of the financial statements
- the approach to Value for Money work
- information on the Audit Team, the proposed deliverables, the timescales and fees involved

Arising out of the above, particular reference was made to

- the fees which had increased by £1,470 by the Audit Commission from the fee reported in the Audit Letter. The fees for the 2014/15 audit would be £181,331
- the consideration of materiality by value, nature and context
- the assessment of the key significant risks or other key areas of audit focus. It was noted that the initial assessment had not identified any significant risks that were specific to the Authority. Areas of focus in 2014/15 would include Local Authority Maintained/Voluntary Aided/Voluntary Controlled Schools and particularly issues in relation to assets
- work to be undertaken in relation to Value for Money risk and Financial Resilience
- the way in which the External Auditor worked with Internal Audit and the arrangements for ensuring appropriate assessments were made

RESOLVED that the report on the External Audit Plan 2014/15 be received.

(c) Protecting the Public Purse

Ms L Wild, representing the External Auditor (KMPG) presented a briefing on the Council's current position with regard to fraud detection and performance activities, providing information on local and national fraud risks to enable the Authority to consider the proportionate response required and to provide a catalyst for reviewing the current strategy, resources and capability for tackling fraud.

The briefing gave details for Barnsley, with comparison to the average for other Metropolitan Districts, of:

- Total cases detected and value (excluding Housing Tenancy Fraud)
- Housing Benefit and Council Tax Benefit – the total detected cases and as a proportion of Housing Benefit caseload
- Council Tax Fraud – the total value and value as a proportion of Council Tax income
- Social Housing Fraud (for those Councils with Housing Stock), total properties recovered and as a proportion of housing stock
- Right to buy fraud (for those Councils with Housing Stock) – including right to cases and value

- Disabled Parking (Blue Badge) fraud
- Other frauds identified in Barnsley with specific reference to Procurement, Insurance, Social Care and Internal

Particular reference was made to the following:

- It was noted that some fraud was of high risk but low value which could have a reputational impact on the authority
- The difficulties of making comparisons with other authorities was highlighted as these had not been identified. Ms Wild acknowledged and shared these concerns. She would attempt to provide further contextual information which would help such assessments to be made. She had asked for this information to be provided prior to the meeting and she reminded Members, however, that this was an Audit Commission report over which she had no jurisdiction. Arising out of this it was suggested that a comparison of Unitary with Shire Councils would be beneficial as would comparisons with other South and West Yorkshire Authorities
- Ms Wild commented that Members might find it useful to refer to the full Audit Commission report as this would give further contextual information
- There was a discussion about the correlation between expenditure on investigation of fraud and the detection of fraud
- Whilst there were low levels of Social Care and Insurance fraud identified it was not thought that there was an underlying issue in detection. It was felt that one of the reasons for the low level fraud could be because of the low mobility of Barnsley residents
- The work of the Corporate Anti Fraud Team was crucial in ensuring that incidents of fraud were detected. The approach to be adopted by the Team was touched upon. It would be interesting to examine in future the impact of the Team on detection

RESOLVED

- (i) that Ms Wild be thanked for the presentation and the briefing be received; and
- (ii) that the briefing be forwarded to all Members of the Council for information and reference.

82. Local Government Act 2003 - Section 25 Report on the 2014/15 Budget Proposals

The Head of Technical Services presented the Section 25 report of the Director of Finance, Property and Information Services providing advice on the robustness of the estimates included within the 2015/16 budget, on the adequacy of the reserves that the budget would provide and giving information on the affordability and prudence of capital investment given the impact of the revenue budget.

RESOLVED that the report be received.

83. Corporate Finance and Performance Management Position for the month ended 31st December, 2014 and Capital Programme 2014/15 – 2016/17 Update

The Head of Technical Services submitted a report of the Director of Finance, Property and Information Services summarising the position of the Corporate Finance position and the Authority's Capital Programme for the three year period 2014/15 – 2016/17 as at 31st December, 2014.

As previously agreed only the covering report was presented, the full documentation having been made available to Members prior to the meeting.

RESOLVED that the report be received and that the Committee be kept informed of action taken to address areas of demand led overspend

84. Audit Committee Work Plan 2014/15

The Committee received a report providing the indicative work plan for the Committee for its proposed scheduled meetings for the remainder of the 2014/15 municipal year.

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

85. Exclusion of the Public and Press

RESOLVED that the public and press be excluded during the consideration of the following item because of the likely discussion of exempt information as defined by Paragraph 7 of Schedule 12A of the Local Government Act 1972 as amended.

94. Internal Audit Plan 2015/16

The Head of Internal Audit submitted the indicative Internal Audit Plan for the financial (audit) year 2015/16 describing the rationale and process for setting the plan, the risk assessment process used and how Internal Audit resources were calculated and deployed.

Particular reference was made to:

- the reduction in resources available to the service within the context of the Future Council proposals and to the impact this would have on the Audit Plan
- the way in which the Plan had been devised and developed to ensure that it was risk based
- the coverage reduction which limited the assurance which could be given. The Head of Internal Audit commented, however, that he still felt that the resources available would enable him to give an appropriate level of assurance opinion. If any issues arose these would be reported to Committee and to the Senior Management Team

- an Appendix to the report provided details of reserve Audit work should resources become available as a result of the re-allocation of work contained within the Plan
- in response to questioning, the Head of Internal Audit assured Members that the service remained truly independent and objective

RESOLVED:-

- (i) that the Indicative Internal Audit Plan 2015/16 be agreed, acknowledging the need for the Head of Internal Audit to exercise his professional judgement during the year to apply the Plan flexibly according to priority, risk and resources available; and
- (ii) that the Head of Internal Audit submit quarterly monitoring reports to demonstrate progress against the Plan, including information where the Plan has materially varied from the original Plan.

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Chairman

