

BARNSELY METROPOLITAN BOROUGH COUNCIL**Audit Committee****10th June, 2015**

1. **Present:** Councillors Richardson (Chairman), Clements and Griffin together with Co-opted Members – Ms Armitage and Ms Brown and Mr Gill, Mr Johnson and Mr Marks.

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

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

3. **Appointment of Vice Chairperson**

RESOLVED that consideration of this matter be deferred until the next meeting.

4. **Minutes**

The minutes of the meeting held on the 22nd April, 2015 were taken as read and signed by the Chairman as a correct record.

5. **Actions Arising from Previous Meetings**

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

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

6. **Annual Fraud Report 2014/15**

The Head of Internal Audit submitted a report summarising the outcome of proactive and reactive anti-fraud and investigation work undertaken during 2014/15 with a particular focus on the work delivered by Internal Audit. The report outlined some of the areas of emerging fraud risk and the Council's strategic and operational arrangements for managing those risks.

In attendance was Joanne Race, Principal Auditor in the Corporate Anti Fraud Team.

The report provided information and assurance to the Committee regarding key aspects of the Authority's Internal Control and Governance Framework.

Of particular note were the following:-

- the mitigating controls available to prevent fraud and corruption including Benefits Investigation Section and Benefits Taxation work and work of enforcement officers in other services and the dedicated anti-fraud and corruption resources within Internal Audit
- the transfer to the DWP single Fraud Investigation Service (SFIS) on 1st April, 2015 of the Council's Housing Benefit Fraud Team. It was noted that the SFIS was not responsible for investigating non-benefit and local taxation fraud as this remained the responsibility of the Council. In view of this, as part of the Future Council initiative, a Corporate Anti-Fraud Team had been formed within Internal Audit and this had become effective from the 1st April.
- During the year there had been an increase in the number of irregular matters referred. Twenty referrals had been received compared to 6 in the previous year ranging from investigating issues around allegations of theft, insurance and Right to Buy Frauds, financial irregularities by a third party against a Social Services Client, attendance and working arrangement issues. It was noted that 7 cases remained in progress at the end of the year.
- The number of sanctions achieved by the Housing Benefit Investigation Section and the number of successful prosecutions had increased slightly compared to the previous year
- Successful prosecutions had been widely publicised to ensure the maximum benefit was achieved as a deterrent

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

- An explanation was given about (together with the reasons for) the 7 ongoing investigations as at 31st March, 2015. Arising out of this reference was also made to the investigations brought forward to 2014/15 from the previous year
- It was noted that Internal Audit had concentrated more resources on prevention as opposed to investigations during the year and the rationale for this was outlined. It was also noted that as a result of the creation of the Corporate Anti-Fraud Team, the number of investigations was likely to increase in future years. Lessons learned from investigations would always be used to inform future actions
- The Internal Audit Intranet site was to be updated to reflect the establishment of the Corporate Anti-Fraud Team
- Details of a recent housing benefit fraud involving an employee were provided. In response to detailed questioning, the Director of Legal and Governance explained the reasons for the disciplinary action taken given the zero tolerance approach of the Council to such actions
- The Head of Internal Audit gave details of the way in which work was planned and number of days allocated to anti-fraud, investigative and reactive work. He commented that issues arising during the year could, of course, impact on the number of days undertaken within each area of the service.

RESOLVED:-

- (i) that the Annual Fraud report, which forms part of the framework of the assurances to support the Annual Governance Statement, be approved;
- (ii) that the continued embedding of a culture of zero tolerance and high levels of awareness regarding fraud and corruption be supported; and
- (iii) that regular update reports be submitted regarding the implementation and success of the Corporate Anti-Fraud and Corruption Strategy

7. Internal Audit Annual Report 2014/15

The Head of Internal Audit submitted his Annual Report on the adequacy and effectiveness of the Authority's framework of governance, risk management and control (the internal control arrangements) based on the work of Internal Audit during 2014/15 which had been prepared in accordance with recommended practice contained within the Public Sector Internal Audit Standards.

The report contained:-

- (i) an opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control
- (ii) a summary of the audit work undertaken to formulate the opinion
- (iii) details of key control issues identified, particularly in the context of the Annual Governance Statement
- (iv) the extent to which the work of other review or other bodies had been relied upon
- (vi) a summary of the performance of the Internal Audit Service
- (vii) a statement on conformance with the Public Sector Internal Audit Standards and the results of its quality assurance and improvement programme and
- (viii) a summary of the training and development activities undertaken with the Internal Audit Section

The meeting noted that the Head of Internal Audit and Risk Management was able to provide an adequate assurance opinion. This opinion was based upon the completion of the annual programme of risk based audit coverage.

Key issues arising from all completed audits had been reported throughout the year within the quarterly Internal Audit reports. A number of reports issued resulting in a negative assurance opinion had decreased and most of the findings related, in the main, to 'people' issues and the non-compliance regarding the application of the necessary controls and checks. This non

compliance would be monitored throughout the year along with the number of negative report assurance opinions.

The implementation of audit report recommendations had continued to be an issue throughout the year and monitoring would continue to be a priority for the service.

A number of investigations had been completed during the year and no major issues had arisen although the control issues identified had been highlighted for management attention.

In addition, Divisional performance had remained satisfactory with most areas exceeding the target although two performance indicators marginally varied from the target. The issue of final reports performance indicator was below target which had been mainly due to delays obtaining details required to finalise audit reports. The percentage of chargeable time was also below target due, in the main, to additional corporate requirements and time expended on the preparation of tenders.

In the ensuing discussion, and in response to detailed questioning, the following matters were highlighted particularly within the context of the Annual Governance Statement:

- It was noted that the delay in the implementation of audit report recommendations had been raised within the Senior Management Team. It was noted, however, that the implementation of the Future Council initiative may have been a contributing factor to the delays. The Senior Management Team had, however, made this a priority for future action and was to ensure that there was a robust follow up process. The Head of Internal Audit confirmed that delays did not mean that there was any compliance issues
- There was a discussion of the audit processes and within the context of the Strategic Risk Register. The Head of Internal Audit and the Risk and Governance Manager referred to the ways in which issues of concern were escalated to Service Directors and finally to Senior Management Team
- In response to detailed questioning on the Core System Reviews, the Head of Internal Audit gave details to the background to and reasons for the limited assurance given in relation to Income and SAP System Security and to the potential impact of this. Arising out of this, reference was made to the instances in which the External Auditor would become involved in specific issues and particularly in relation to fundamental control issues. It was not anticipated that there would be any significant involvement by External Audit unless a there was a longstanding business continuity issue
- The Head of Internal Audit informed the Committee explained in relation to Core System Reviews, why the SAP System Security had not been audited since 2011/12.

- Reference was also made to the introduction of more e-forms in an attempt to reduce paper usage and, ultimately, costs. These new systems still needed to be embedded further
- The Head of Internal Audit briefly referred to the change of approach to audit work to become more risk based
- The External Auditor commented on the relationship between External and Internal Audit and the ways in which work was planned and undertaken

RESOLVED:-

- (i) that the assurance opinion provided by the Head of Internal Audit on the adequacy and effectiveness of the Authority's framework of governance, risk management and control be noted;
- (ii) that the key issues arising from the work of Internal Audit in the context of the Annual Governance Statement, be noted; and
- (iii) that the satisfactory performance and activities of the Internal Audit functions for 2014/15 be noted.

8. Terms of Reference and future arrangements for the Audit Committee

The Director of Finance, Assets and Information Services reported on the outcome of discussions with the Chair on the need for a fundamental review of the working arrangements of the Audit Committee to reflect, amongst other things, the changing nature of the Council consequent upon the Future Council initiative.

It was essential that the Committee 'added value' to the work of the Authority and to this end it was proposed to hold a workshop meeting, possibly in the time slot allocated for the November meeting, to discuss possible changes and ways of working prior to submitting proposals for consideration by the Council.

RESOLVED that the report be noted and that future meetings of the Audit Committee continue to be held at 4.00pm (with the exception of the meeting immediately prior to the September Council meeting which will be held at 2.00pm on a Friday).

9. Annual Review of the Effectiveness of Internal Audit

The Head of Internal Audit submitted a report presenting information and evidence in support of the statutory review of the effectiveness of the audit function and requesting the Committee to form a view as to its satisfaction that the audit function is effective and, where improvements had been identified, to monitor these during the year.

The Head of Service reminded Members that the Public Sector Internal Audit Standards had come into effect on the 1st April, 2013, replacing the 2006 Code of Practice for Internal Audit. These standards required the Head of Internal

Audit to develop and maintain a quality assurance and improvement plan covering all aspects of internal audit activity (QAIP). The programme should be designed to enable an evaluation of the internal audit activity's conformance with the Standards and assess the efficiency and effectiveness of the internal audit activity and identified opportunities for improvement. It was considered, therefore, appropriate that the QAIP would also form the basis of the annual review of the effectiveness of the Internal Audit Function.

The Head of Internal Audit went on to outline in more detail how the review had been undertaken together with the evidence that had been collected to support that review.

Overall, the report highlighted a positive level of satisfaction with the internal audit function as evidenced by various sources of feedback from auditees. Areas for improvement were summarised and related predominantly to those arising from the implementation of the new professional standards. These were the subject of an action plan which would be monitored during the course of the year.

In the ensuing discussion reference was made to the following:

- The arrangements in place to undertake external assessments that were required to be conducted at least once every five years. It was noted that this assessment was scheduled to be undertaken mid year and in response to questioning, the Head of Internal Audit explained the way in which the required 'independent person' was to be chosen
- It was noted that arrangements were in hand to undertake peer reviews with other neighbouring authorities and a further report on this matter would be submitted to the September meeting
- There was a discussion of the analysis of Auditee Feedback received during the year. It was noted that there was no correlation between assurance opinion issued and feedback received. All feedback was welcomed and all negative comments were followed up. Issues raised were also used to inform future training sessions

RESOLVED:

- (i) that the information contained in the report now submitted in support of the review of the effectiveness of the audit function be noted and that the Audit Committee expresses its satisfaction with the service; and
- (ii) that a progress report be submitted in approximately 6 months time to monitor progress against the Quality Assurance and Improvement Programme Action Plan as detailed within Appendix 3 of the report now submitted.

10. Risk Management Annual Report 2014/15

The Service Director (Financial Services) submitted his annual report outlining the progress made in 2014/15 towards the achievement of the goals set out in

the Council's Risk Management Policy and signposting the further work to be undertaken in 2015/16.

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

It was noted that:

- The Risk Management Framework (including the Risk Management Policy and Strategy) had been reviewed to reflect the context in which the Council was now working within the terms of Future Council and the development of and embedding of Business Units.
- Regular and productive Risk Champion meetings had assisted in focusing activity within Directorates aimed at further embedding a culture of Risk management within the Council.
- The Strategic Risk Register had been reviewed for the fifth time and was a regular feature on the Audit Committee agenda
- The Risk Management Database had been updated and the Council was rolling out and embedding the system into the Council's normal business processes
- The Risk Management training and awareness programme 2014/15 had been delivered and had been complemented by the provision of discrete Risk Management Training Packages for both Officers and Elected Members as part of the Barnsley on-line development platform
- The workplan for 2014/15 had been completed and the Risk management section was now working towards the delivery of the workplan for 2015/16

Specific reference was made to the following:

- The role of Risk Champions who, amongst other things, ensured the dissemination of good practice and assisted in the implementation and delivery of the Risk Management Policy, Strategy and Framework. This role was crucial as the Future Council initiative developed. Further details of the role of these Champions would be provided
- It was noted that an e-learning offer had been developed specifically as an introduction to risk management for Elected Members to complement the existing introduction to Risk Management training module designed for officers. It was suggested that this include Independent Members. It was also noted that training had been provided for the Overview and Scrutiny Committee earlier in the year
- Direct liaison was being undertaken in relation to a number of projects and these were detailed within the report. It was noted that the South

Yorkshire Superfast Broadband initiative was not the same as the Digital Region project. Arising out of this reference was made to the remaining financial liabilities of Digital Region which was not considered to be significant

- There was a discussion of the work plan for 2015/16 details of which could be circulated

RESOLVED:

- (i) that the Risk Management Annual Report for 2014/15 and the assurances contained therein be received and noted as part of the overall consideration of the control framework for the purposes of the Annual Governance Statement; and
- (ii) that periodic reports be presented to the Committee during the year to monitor the progress in achieving the actions identified for 2015/16.

11. External Audit Report – Annual Audit Fee Letter 2015/16

Mr J Cornett, representing KPMG, presented the External Auditor's Annual Fee Letter for 2015/16.

The following issues were raised:

- The arrangements following the closure of the Audit Committee were referred to:
 - Whilst the Audit Commission had closed at the end of March, 2015, it was, nevertheless responsible for the setting of fees for the audit of the 2015/16 financial year. Fee proposals were, therefore based on the Commission's work programme and Scales of Fees for 2015/16
 - The responsibility for determining fees in the future had been transferred to the Public Sector Audit Appointment Ltd (PSAA) which would oversee the management of the Commission's contracts until the end of 2017 or 2020 if they were extended. In addition, certain functions formerly exercised by the Commission had been delegated to the PSAA
 - The National Audit Office was now responsible for producing and maintaining the Code of Audit Practice and for providing supporting guidance to auditors
- Details of the planned audit and certification fees (with comparisons to the previous year) were outlined. In general, these were based on a 25% reduction and was in addition to the savings of up to 40% in scale audit fees and certification fees in 2012.
- The External Auditor had not yet completed the 2014/15 audit and the planning process from 2015/16 (including risk assessment) would continue as the year progressed and fees revised as appropriate
- Details of the factors affecting the audit work for 2015/16 were outlined. Amongst other things, it was noted that CIPFA had confirmed that a change in accounting policy would be introduced for the accounts from 2016/17 in relation to the measurement of transport infrastructure assets for authorities

with highway responsibilities. Fees for any additional preparatory work would be subject to the usual variation procedures. It was also noted that the National Audit Office still had to publish guidance on the required approach to work on Value for Money Arrangements for 2015/16

- The External Auditor would also certify the 2015/16 claim for housing benefit subsidy for the DWP. There were no other claims or returns required to be certified under the PSAA contract and therefore any assurance arrangements for other schemes would be subject to separate fees and would be the subject of discussion
- The indicative fees were based on a number of assumptions details of which were outlined within Appendix 1 to the report
- Details of the Planned Output Reports were provided within Appendix 2 to the report.
- The future arrangements for the ways in which fees could be increased were outlined

RESOLVED that the Annual Audit Fee letter for 2015/16 be received and the potential implications of the issues identified therein be noted.

12. Audit Committee Work Plan 2015/16

The Committee received a report providing the indicative work plan for the Committee for its proposed scheduled meetings for the remainder of the 2015/16 Municipal Year.

RESOLVED that the core work plan for 2015/16 meetings of the Audit Committee be approved and reviewed on a regular basis.

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Chairman

