

MEETING:	Audit Committee
DATE:	Wednesday, 23 March 2016
TIME:	4.00 pm
VENUE:	Reception Room, Barnsley Town Hall

AGENDA

Procedural/Administrative Items

1. Declarations of Pecuniary and Non-Pecuniary Interest

2. Minutes (*Pages 5 - 16*)

To receive the minutes of the meeting held on 20th January, 2016

3. Actions Arising From the Previous Meetings (*Pages 17 - 18*)

The Committee will receive a report detailing action taken and arising from previous meetings of the Committee.

Items for Discussion/Decision

4. Internal Audit Charter and Strategy (*Pages 19 - 46*)

The Head of Internal Audit will submit a report prefacing the annually reviewed and revised Internal Audit Charter and Strategy.

5. Corporate Anti-Fraud Team 2016/17 Plan and Strategy (*Pages 47 - 58*)

The Head of Internal Audit will submit a report providing details of the Corporate Anti-Fraud Team's Plan for 2016/17 which is supported by the Corporate Anti-Fraud Strategy.

6. Public Sector Internal Audit Standards - External Compliance Assessment 2016 (*Pages 59 - 86*)

The Executive Director Finance, Assets and Information Services will submit a report providing the Committee with details of the recent external assessment of the Internal Audit arrangements for the Authority against the Public Sector Internal Audit Standards (PAIAS).

7. Review of the Audit Committee Workshop and Draft Action Plan (*Pages 87 - 92*)

The Executive Director Finance, Assets and Information Services and the Executive Director Legal and Governance will submit a joint report presenting the updated Action Plan as requested by the Committee at the meeting held on the 20th January, 2016.

Items for Information

8. External Audit Progress Report and Technical Update (*Pages 93 - 108*)

The Committee will receive the External Audit Progress Report and Technical Update.

9. External Audit Plan 2015/16 (*Pages 109 - 122*)

The Committee will receive a report supplementing the Annual Audit Letter describing how the External Auditors will deliver the financial statements and audit work for the Council and setting out the approach to Value for Money work for 2015/16.

10. External Audit - Local Government Budget Survey (*Pages 123 - 146*)

The Council's External Auditor will submit a report on a survey undertaken in 2015, analysing the assumptions and techniques used by clients to generate budgets and to monitor them the outcome of which is hoped will help Local Authorities take a fresh look at their approach to budget setting and monitoring.

11. Audit Committee Work Plan 2015/16 (*Pages 147 - 148*)

The Committee will receive the indicative Audit Committee Work Plan for 2015/16 and 2016/17.

12. Exclusion of the Public and Press

It is likely that the public and press will be excluded from this meeting during consideration of the item so marked because of the likely disclosure of exempt information.

13. Internal Audit Plan 2016/17 (*Pages 149 - 170*)

The Head of Internal Audit will submit a report presenting the indicative Internal Audit Plan for the financial (audit) year 2016/17, describing the rationale and process for setting the plan, the risk assessment process used and how Internal Audit resources are calculated and deployed.

Reason restricted:

Paragraph (7) Any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

To: Chair and Members of Audit Committee:-

Councillors Richardson (Chair), Barnard, Clements and Griffin; together with Independent members Ms K Armitage, Ms D Brown, Mr M Marks, Mr P Johnson and Mr S Gill

Diana Terris, Chief Executive
All Executive Directors
Andrew Frosdick, Director Legal and Governance

Frances Foster, Director Finance, Assets and Information Services
Rob Winter, Head of Internal Audit
Neil Copley, Service Director Finance
Ian Rooth, Head of Technical Services
Adrian Hunt, Risk Management Manager
Michael Potter, Service Director Organisation and Workforce Improvement
Julie Winham, Senior Audit Manager

Council Governance Unit – 3 copies

Please contact William Ward on 01226 773451 or email governance@barnsley.gov.uk

Tuesday, 15 March 2016

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MEETING:	Audit Committee
DATE:	Wednesday, 20 January 2016
TIME:	4.00 pm
VENUE:	Reception Room, Barnsley Town Hall

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

35. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST

Ms K Armitage declared a non pecuniary interest in any item relating to the Barnsley Hospital NHS Foundation Trust in view of her appointment as a Governor to the Trust.

36. MINUTES

The minutes of the meeting held on the 18th September, 2015 were taken as read and signed by the Chair as a correct record.

37. ACTIONS ARISING FROM THE PREVIOUS MEETINGS

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

It was noted that as a result of the cancellation of the December meeting there were now a considerable number of items programmed for the meeting to be held on the 23rd March, 2016. In view of this, the Head of Internal Audit commented that some of these items may have to be re-scheduled so that the March meeting was more manageable so that issues raised could be discussed in a timely manner.

RESOLVED that the report be noted.

38. INTERNAL AUDIT QUARTERLY REPORT 2015/16 - QUARTER ENDED 31ST DECEMBER, 2015

The Head of Internal Audit submitted a report providing a comprehensive overview of the key activities and findings of Internal Audit based on the Division's work to the end of December, 2015. He also submitted, for information purposes only, a copy of his report on the work of the Division to the end of 30th September, 2015 which was to have been submitted to the meeting scheduled for 4th November, 2015. Members were reminded that this meeting had been cancelled to enable a workshop to be held on the future arrangements for and work of the Audit Committee.

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 second quarter of 2015/16
- Details of Internal Audit's performance for the quarter utilising performance indicators

Reports issued and internal audit work completed during the quarter had raised three fundamental recommendations relating to the adequacy of contract management arrangements, the effectiveness of safeguarding training relating to Taxi Drivers and a legal issue regarding the Authority's ability to meet statutory timescales for the completion of Deprivation of Liberties assessments.

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

Of the 41 recommendations followed up, 34% had been implemented by the target date and a further 51% by the revised target date. Six recommendations (15%) remained not implemented and had been given revised implementation dates.

In relation to the Audit Plan, more days than the profile had been delivered within the third quarter.

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

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

- There was a discussion of the reasons for the failure to meet the original implementation date for complying with audit recommendations. It was stressed, however, that whilst 34% were completed by the original date, 86% were completed by the revised date. Managers were sometimes over optimistic in agreeing when the recommendations could be addressed and it was also acknowledged that due to the financial constraints on the authority, there was increased pressure on managers which could have a contributing effect on the failure to meet the original date. The Head of Internal Audit stressed that services were challenged to set realistic target dates, however, if issues were so significant they would be brought to the attention of the Senior Management Team. In response to questioning, he stated that he would assess the current position and, if required, highlight areas of concern or where he felt little or no progress was being made
- Referring to the number of audit days allocated it was noted that 36 days had been allocated to the Council above the profile and that there was a shortfall of 187 days primarily accountable to more than budgeted days being spent on training and council wide activities. This would be regularised during the remainder of the year as priorities were

determined and consideration was given to the audit work that could be deferred.

- Arising out of the above, the Head of Internal Audit made the following comments:
 - He didn't feel that there would be any financial loss through the shortfall of audit days or for the delay in implementing recommendations. A track was kept of all target and re arranged target dates
 - He gave a brief outline of the way in which the audit plan was compiled and the assumptions made in relation to the number or days allocated. He also made reference to the training arrangements in place
 - In relation to the number of days allocated, it was anticipated that this would balance out during the remainder of the audit year
- In response to questioning, the Head of Internal Audit gave a brief resume of the findings of the three fundamental recommendations referred to above and to the work that was required to address the issues raised. Particular reference was made to the current position with regard to:
 - The adequacy of the contract arrangements of Home to School Transport and a report commissioned in response to the Casey report
 - The safeguarding training and related issues associated with Taxi Drivers and Licensing
 - The issues relating to the completion of Deprivation of Liberties assessments and possible legislative changes which, if implemented, could ease the current issues faced by the Authority
- In relation to the internal audit function and performance and within the context of the current financial restrictions and the implementation of the Council's Job Evaluation scheme, particular reference was made to the current position with regard to the recruitment arrangements to fill two existing vacancies. Reference was also made to the excellent retention position of the Service. The Service Director Finance also commented that his service was experiencing similar recruitment issues. Arising out of this discussion, Members of the Committee stressed the importance of ensuring that remuneration remained competitive to ensure that the right calibre of staff was recruited. The
- The Head of Internal Audit gave an update of the current position with regard to the recommendations made to ensure that the procurement card process was improved and that excessive bank charges were avoided

RESOLVED

- (i) that the issues arising from the completed Internal audit work for the third quarter along with the responses received from management be noted;

- (ii) that the report on the work of the Division for the second quarter to the end of September, 2015 be noted;
- (iii) 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 December, 2015 of the 2015/16 audit year be noted;
- (iv) that the progress against the Internal Audit Plan for 2015/16 for the period to the end of December 2015 be noted;
- (v) that the performance of the Internal Audit Division for the third quarter be noted.

39. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT - PROGRESS REPORT

Further to Minute 7 of the meeting held on the 10th June, 2015, the Head of Internal Audit submitted a report providing an update on the progress made in addressing the issues arising from the annual review of the effectiveness of the Internal Audit Function.

The report provided details of the background to annual review process indicated that a self assessment, which was a key part of the Quality Assurance Improvement Programme and a requirement arising from the implementation of the Public Sector Internal Audit Standards, had resulted in the production of a detailed Action Plan. The priority attached to addressing each action had been based on the value of the outcome added to the client/auditee. The areas for improvement and action along with an update regarding progress in addressing these was summarised within an Appendix to the report.

The actions which remained outstanding predominantly related to the External Assessment process which had recently been completed.

Reference was made to the assessment undertaken by the head of Internal Audit from Bradford Metropolitan District Council who was to present his report to the March meeting. The Head of Internal Audit also stated that as Internal Audit had a number of external clients, with the agreement of the Committee, it was proposed to invite representatives from those client Audit Committees to that meeting.

RESOLVED:

- (i) That the progress made in implementing the actions contained within the updated Action Plan as detailed within Appendix 1 of the report now submitted by approved; and

- (ii) That representatives from the Internal Audit client Audit Committees be invited to the March meeting of this Committee to the presentation to be made by the Head of Internal Audit (Bradford MDC) on the outcome of his internal assessment of this Council's Audit Service

40. REVIEW OF COUNCIL TAX SINGLE PERSONS DISCOUNT

The Head of Internal Audit submitted a report providing an update on the Council Tax Single Person's Discount review which was being undertaken in conjunction with Databank which formed part of the Council's successful counter fraud fund bid to the DCLG.

The report provided details of the background to the review and the way in which it had been undertaken.

In outlining the results of the review in detail, the report indicated, amongst other things, that:

- 18.4% of those registered on the Single Person Discount Database warranted further follow up being assessed as moderate to high risk
- 60% of those targeted had responded as at 4th January, 2016
- Of the returned forms:
 - 3,646 responses were currently being processed
 - 216 had been referred for amendment/follow up and were waiting to be processed by the Council
 - 229 single person discounts had been removed following a declaration of change of household circumstances
 - 106 had been completed without any effect on the discount
- The cancellations to date had resulted in an additional £113,000 Council Tax income being raised
- The Council Tax Anti Fraud Team was starting to challenge responses identified as being 'suspicious' and to date 22 taxpayers had subsequently confirmed that their declared date of change was incorrect. This had resulted in an additional increase of £5,519 Council Tax income being raised

It was reported that as the review was not yet complete, additional outcomes would continue over the next few months and a further update would be provided within the Anti Fraud Team update scheduled to be submitted to the March meeting.

In the ensuing discussion reference was made to the following:

- It was noted that the review had worked well and, surprisingly, no complaints had been received to the initial letter of enquiry
- The responses to date enhanced the quality of information held by the council as many respondents had provided email addresses and/or telephone numbers
- Appropriate action would be taken where instances of genuine fraud were detected and arising out of this reference was made to the liabilities of when

two people were living as a couple and had two separate properties. Arising out of this discussion the Director of Legal and Governance indicated that his service had sufficient capacity to take legal action if required

- Reference was made to those persons who had not responded and to the follow up action to be taken
- The Service Director Finance commented on the positive effect of enforcement and to the fact that the potential threat of prosecution often had the desired effect in ensuring that appropriate payments were made

RESOLVED that the very positive outcomes from the work being undertaken by the Council to reduce the value of incorrectly claimed Single Person Discount be noted.

41. REVIEW OF THE AUDIT COMMITTEE WORKSHOP AND DRAFT ACTION PLAN

The Executive Director Finance, Assets and Information Services and the Executive Director Legal and Governance submitted a joint report on the outcomes of the Workshop held on the 4th November, 2015 to review the future arrangements for the operation of the Audit Committee. Appended to the report was a Draft Action Plan which was submitted for approval.

The Key areas discussed at the Workshop had been incorporated into the proposed Action/Development Plan and were outlined in detail within the report. The Committee was asked to consider further these key areas and to agree the proposed activities. It was reported that timescales were being drawn up and would be incorporated into the Plan for implementation and this would be reported to the next meeting of the Committee.

In addition to the key areas and emerging actions, as now outlined, it would also be necessary to consider how best to support the Committee within the limited officer resources. This aspect would also be kept under review and any issues brought to the Committee's attention.

In the ensuing discussion reference was made to the following:

- The self assessment, using the CIPFA questionnaire would be circulated to all members in WORD format so that this could be completed online. It was noted that some Members had already completed and submitted their response. The rationale for using this CIPFA guidance was outlined
- Ms L Wild representing the External Auditor commented that she had an Audit Committee Self Assessment questionnaire and audit survey which would enable the Committee to benchmark against other Audit Committees. She would make this available for Members
- It was noted that this was an 'emerging' document and that timescales for action would be incorporated
- Members of the Committee were asked to let the Head of Internal Audit have any comments on the action plan as a matter of urgency

RESOLVED:

- (i) That the report and draft Action Plan be approved and a further report be submitted to the next meeting detailing proposed timescales for action
- (ii) That Members of the Committee complete the self assessment questionnaire and submit comments on the Action Plan to the Head of Internal Audit as a matter of urgency.

42. STRATEGIC RISK REGISTER - FULL REVIEW OCTOBER, 2015

The Director of Finance, Assets and Information Services submitted a note presenting a report submitted to Cabinet on the 13th January, 2016 on a full review of the Strategic Risk Register undertaken in October 2015.

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

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

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

The report outlined:

- the following areas which had been explored during update meetings with Risk Owners including:
 - Child Sexual Exploitation – particularly in the light of recent issues within South Yorkshire
 - The Customer Services Organisation programme – which had now moved into delivering phase two of the programme
 - The developing City Region devolution deal affecting leadership, skills, employment business support, transport and housing
- The key risks across the six 'concern' rating classifications
- The changes to the risks logged since the last review
 - The inclusion and upgrading of risk 3034 'Failure to deliver the Medium Term Financial Strategy' in view of the uncertainties surrounding the Comprehensive Spending Review and Autumn Statement

- The inclusion of a new risk 3699 'Failure to ensure the Council's commercial/trading arm is effective in its operation, and is a well governed organisation
- The inclusion of risk 3514 'Failure to be able to deliver the ambitions and outcomes associated with the Customer Services Organisation Programme' within the Risk Profile
- The significant/red risks and new and emerging risks and the risk mitigating actions
- Other significant changes to the Strategic Risk Register

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

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

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

Reference was also made to the embedding of the risk management culture throughout the Authority.

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

- The 'risk owners' and to the actions/tasks they were charged with to manage those risks.
- In response to specific questioning, the Director of Legal and Governance referred particularly to risk 3699 – Failure to ensure the Council's commercial/trading arm. Arising out of this discussion reference was also made to the 'devolved' procurement arrangements of Area Councils and the grants issued by Ward Alliances and the ways in which potential risks were managed
- There was a discussion of concerns at the increasing amount of time committed by both the Senior Leadership Team and by Senior Members to the developing city region devolution deal. The Director of Legal and Governance briefly outlined his and the Director of Finance, Assets and Information Services respective roles in this process and commented that this was not currently an issue in terms of workload and time commitment. It was accepted that this was an emerging area of importance but it was equally important the Cabinet continued to monitor time commitments to ensure that there was no detriment to the Council
- Risk 3024 – lack of educational attainment was noted as was the role of the Barnsley Alliance Board and the revised approach to assessing performance in schools

- There was a discussion of the increasing role and involvement of volunteers, to the potential risks involved and to the ways in which such risks could be mitigated
- A report by the Director of Finance, Assets and Information Services providing an update on risk 3030 – Failure to be prepared for an emergency response or business continuity threat and on the decision to bring the IT service back ‘in house’ (particularly in relation to business continuity) would be presented to the next meeting.
- There was a discussion of the ways in which Business Plans and Health and Safety Resilience was tested and the Risk and Governance officer commented that details of this could be included in the next update report to be submitted in September, 2016. Arising out of this discussion, the Service Director Finance informed the Committee that all Business Units had Business Continuity Plans.

RESOLVED:

- (i) 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 process of the actions taken and their impact on the Strategic Risk Register; and
- (ii) That the next update report provide details of the ‘test regime’ for Business Continuity Plans and Health and Safety Resilience

43. ANNUAL GOVERNANCE STATEMENT 2015/16 - ACTION PLAN UPDATE

The Risk and Governance Manager introduced the item noting that the current position for all actions within the plan had been updated, with revised timescales where appropriate.

With regards to developing a framework to assist the governance of partnerships, contracts and relationships with external organisations the meeting heard how adopting a proportionate approach, with a ‘Statement of Good Practice’ had recently been discussed by the Senior Management Team. It was noted that this would now be discussed by Barnsley Leadership Team.

Members heard how the completion rate for P&DRs was 74.6% against a target of 85%, with performance against this now considered as part of the quarterly performance management reporting cycle.

An update was provided with regards to improving the Council’s business continuity planning arrangements. It was noted that the corporate business continuity plan had been completed and had been considered by the Senior Management Team.

Members heard how the recording of officer delegated decisions had been reviewed, with revised guidance considered by the Senior Management Team and subsequently circulated to Barnsley Leadership Team.

RESOLVED that the update on progress in delivering actions in the Annual Governance Statement action plan be received.

44. RISK MANAGEMENT UPDATE REPORT 2015/16

The Risk and Governance Manager presented a report on behalf of the Director of Finance, Assets and Information Services.

Members were reminded of the review of the Risk Management Framework in April, 2015 and subsequent update of the Strategic Risk Register in, October 2015. It was noted that the Council's Operational Risk Register have also been reviewed and was now aligned to future council arrangements.

The Committee heard how the Annual Governance Review process had been reviewed early in 2015/16, and the Annual Governance Statement was approved by Council in September, 2015.

Members were updated on Risk Management performance for quarter 3 and it was noted that a benchmarking exercise had been recently undertaken. This suggested that the outputs and overall maturity of the Council's Risk Management arrangements were broadly in line with similar authorities.

The Committee considered the Risk Management workplan and discussed the Objective to 'Support and encourage Risk Management activity throughout the Council and its partners'. The difference between organisations that were considered partners and those which the Council had only a contractual arrangement with were noted.

RESOLVED that the Risk Management Update Report be received.

45. EXTERNAL AUDIT - ANNUAL AUDIT LETTER 2014/15

Ms L Wild introduced the item, noting the statutory requirement to produce the letter. The letter itself provided a summary of the key findings from the audit, which were discussed in some detail by the Committee at its previous meeting in September, 2015.

RESOLVED that the Annual Audit Letter 2014/15 be received and its content noted.

46. EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE

Mr L Wild, representing the Council's External Auditor (KPMG) submitted the progress report and technical update. Attention was drawn to the new local audit framework, further details of which would be provided later on the agenda.

Members noted that since the document had been produced, the spending review had been announced and that officers were still processing the detail to fully understand the implications for the authority. It was noted that the outcome of this would be a revised Medium Term Financial Strategy, expected to be completed early in 2016.

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

47. EXTERNAL AUDIT - APPOINTING YOUR EXTERNAL AUDITOR

Mrs L Wild introduced the item by first declaring an interest in the item due to her employment at KPMG. The Committee was reminded that audit contracts for local government bodies may now only be extended by one year for the audit of the 2017/18 financial year.

Members noted that the Authority will be required to appoint its own external auditor for 2018/19 onwards. The paper provided areas the authority may wish to consider and a number of options for procurement.

The Committee discussed the requirement to establish an Audit Panel, noting that further guidance was expected to be published on the subject, and that this would be discussed at a future meeting of the Committee.

RESOLVED

(i) that the report on Appointing your External Auditor be noted;

(ii) that the Committee discusses the establishment of an Audit Panel at a future meeting.

48. AUDIT COMMITTEE WORK PLAN 2015/16 AND 2016/17

Members considered the workplan circulated. It was noted that many of the items were due to be discussed at the March meeting of the Committee, it was therefore suggested that officers consider the scheduling of items, deferring any non essential items to the April meeting where possible.

RESOLVED that officers reconsider the scheduling of items within the work programme in order that any non essential items due to be considered at the March meeting be deferred to the April meeting.

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Chair

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AUDIT COMMITTEE – 20th January, 2016

ACTIONS ARISING FROM MEETINGS OF THE AUDIT COMMITTEE

Date of Meeting	Agenda Ref	Subject	Details of Actions Arising	Person Responsible	Status / Response
25 th March, 2015	7	Treasury Policy and Strategy Statements 2014/15	To receive a report on the rationale behind the MRP options contained within Appendix E within the context of the current financial climate	Service Director Finance	To be considered at a meeting following a review and determination of a way forward – 20 th April 2016
22 nd April, 2015	4	Internal Audit Quarterly Report – quarter ended 31 st March, 2015	To receive a report on benchmarking the performance of the Service with neighbouring authorities	Head of Internal Audit	Report to be submitted 8 th June 2016
22 nd July, 2015	5	Draft 2014/15 Statement of Accounts	To receive a breakdown of the percentage of debt on a year by year basis	Director of Finance, Assets and Information Services	Report to be submitted 20 th April 2016
22 nd July, 2015	6	Draft Annual Governance Statement 2014/15	To receive a report on the multi agency approach to safeguarding and the creation by the Police of multi-agency hubs	Chief Executive, Director of Legal and Governance, Director of Finance, Assets and Information Services	To be built into the Future Work Plan when invitations are sent to ‘external witnesses/speakers’

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Item 4

Report of the Head of Internal Audit

AUDIT COMMITTEE – 23rd March 2016

INTERNAL AUDIT CHARTER AND STRATEGY 2016/17

1. Purpose of the Report

- 1.1 This report prefaces the annually reviewed and revised Internal Audit Charter and Strategy. Both documents are attached.

2. Recommendation

- 2.1 **It is recommended that the Audit Committee consider the Internal Audit Charter and Strategy and be satisfied that they adequately represent and describe the function and that the delivery of the Strategy will provide the assurances the Committee receive from Internal Audit regarding the effectiveness of the function.**

3. Background

- 3.1 The update of the current Charter and Strategy has considered the requirements of the Public Sector Internal Audit Standards which became effective from the 1st April 2013.
- 3.2 The Charter and Strategy, prepared by the Head of Internal Audit (HoIA) and complemented by regular reports and an annual report, are intended to give the Audit Committee assurances regarding how the Internal Audit function is resourced, managed, organised and delivers its responsibilities.

4. The Charter and Strategy

- 4.1 The Audit Committee considers the Charter and Strategy documents annually as required by the Public Sector Internal Audit Standards (PSIAS).
- 4.2 This latest review has ensured that the Charter and Strategy reflect the current working arrangements of the function but also the aspirations and developments necessary to ensure continuous improvement. The Charter and Strategy will be made available to all employees through the Service's Intranet site.
- 4.3 Both documents reflect the changes arising from the broad client base and the structure of the Service embedded in 2015/16 following a fundamental review through the Future Council programme.
- 4.4 The Internal Audit Team provides services to Barnsley MBC, Berneslai Homes, the South Yorkshire Police Crime Commissioner, South Yorkshire Police Chief Constable, South Yorkshire Fire and Rescue Authority, South Yorkshire Pensions Authority, the Sheffield City Region Combined Authority and from April 2015, the South Yorkshire Passenger Transport Executive. The latter client was secured through a competitive tender process and now

means that Internal Audit coverage is now virtually a 50:50 split between the Council and non-Council clients.

4.5 The key aspects of the Charter and Strategy are:

- i. The Strategy reinforces the objective of the service as a valuable asset to the Authority (and its other clients) by supporting senior management in meeting their responsibilities and the delivery of corporate objectives.
- ii. The Strategy addresses how the Internal Audit Service will be delivered given available limited resources and the changes to the risk profile of the Authority and client organisations along with the requirement of the Authority (and other organisations) to remain 'safe' throughout an period of unprecedented change.
- iii. The Strategy explains the basis of the development of audit work aimed at supporting the various initiatives each organisation is undertaking to meet significant financial pressure and organisational change.
- iv. The development of specialism's to facilitate the delivery of themed type audits across the broad client base.
- v. Explains the changing technical and non technical skills required of the audit team; in particular, in respect of the increase in number of Council and other services delivered by a third party resulting in potentially fragmented governance arrangements.
- vi. The creation of a Corporate Fraud Team within the Internal Audit Service.

4.6 The Charter and Strategy will undergo an annual review to ensure they remain reflective of current working arrangements, but also highlight developmental areas where the service is likely to change to meet changing operational or audit industry requirements. The documents should also serve as a source of reference for the Audit Committee on how the Internal Audit function is organised and managed.

4.7 In overall terms both documents have not changed significantly. However, it has been recognised that it is important to ensure the correct relationships are built and maintained with and within each service of the Council (and client organisation). Through the planning process, the protocols for liaison, consultation and general communication have been reviewed and refreshed. It is vital in the delivery of an efficient and effective Internal Audit service that it is truly regarded, seen and felt as a 'internal'. This is of particular importance and significance in relation to the external clients where most are based in Sheffield.

4.8 There will also be a focus on Internal Audit looking forward and assisting senior management in all client organisations through the significant transformational change that all are facing.

4.9 We very much look forward to supporting this and each Audit Committee and senior management team in the forthcoming year.

5. Local Area Implications

5.1 There are no Local Area Implications arising from this report.

6. Consultations

6.1 Key officers within each of the client organisations utilising the Internal Audit Service have been consulted on the content of the Charter and Strategy.

7. Compatibility with European Convention on Human Rights

7.1 In the conduct of audit work and investigations particularly, Internal Audit operates under the provisions of the Data Protection Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

8. Reduction of Crime and Disorder

8.1 An inherent aspect of audit work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from audit investigations have been considered to ensure improvements in overall controls are made. Additionally, Internal Audit ensures that in specific instances, management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

9. Risk Management Considerations

9.1 The underlying purpose of the work of Internal Audit is to address and advise on key risks facing management and, as such, risk issues are inherent in the body of the report.

9.2 The Division's operational risk register has been fundamentally revised to reflect the changing client base, reduced resources, significant workload pressures, access to and use of IT resources with the underlying aim of providing a high quality, professional and flexible service to all client organisations.

10. Employee Implications

10.1 There are no employee implications arising from this report.

11. Financial Implications

11.1 The costs of the Internal Audit function are included within the Authority's base budget. The services provided to client organisations are paid for under the terms of a Service Level Agreement.

12. Appendices

12.1 Appendix 1 - Internal Audit Charter and Strategy 2016/17

Contact Officer: Head of Internal Audit
Telephone : 01226 773241
Date : 11th March 2016

APPENDIX 1

BARNSLEY M.B.C.

INTERNAL AUDIT SERVICES

INTERNAL AUDIT CHARTER AND STRATEGY

2016 / 2017

The Internal Audit Service provides services to Barnsley MBC and a broad range of external organisations. The term 'organisation' is therefore used in the Charter and Strategy to cover all clients both individually and collectively. Where a service is provided to a particular client then this is specifically described.

For the purposes of Internal Audit activity, the term 'board' refers to the appropriate Audit Committee. The term 'senior management' refers to the Chief Executive and most senior directors or equivalent e.g. the Chief Constable and Senior Leadership Group; the Chief Fire Officer and Executive Team; or the Chief Executive and Senior Management Team.

The Public Sector Internal Audit Standards (PSIAS) refer to the officer responsible for the Internal Audit function as the Chief Audit Executive. This role is undertaken by the Head of Internal Audit (HoIA).

INTERNAL AUDIT CHARTER

1. Introduction

The Internal Audit function is a key component of an organisation's governance framework. As such it aims to provide a quality objective and independent management support function in order to influence and contribute to the achievement of strategic objectives. A key component of this support is the development and maintenance of excellent client relationships and adopting an innovative and flexible approach to the delivery of the service.

This Charter provides the framework for the conduct of the Internal Audit function and is applicable to all client organisations. This Charter will be reviewed at least annually by the relevant Audit Committee, or their equivalent to ensure it remains relevant to the demands and responsibilities of the client service and supports the relevant organisation's corporate objectives. Any substantive changes will be formally approved by the appropriate 'Chief Executive' on the recommendation of the Audit Committee.

Each client organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising whether effective and efficient arrangements exist. The annual HoIA opinion, which informs the annual governance statement, both emphasises and reflects upon the importance of this aspect of Internal Audit work. The response to Internal Audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the corporate objectives, improvement and support innovation and change.

Vital components of a successful internal audit (risk management and governance) service include effective working relationships and through maintaining professional independence and objectivity, working in partnership with management to ensure an effective control environment. The Internal Audit service embraces this approach by effective communication and regular contact with its clients in order to help the organisation achieve its objectives.

2. The Purpose of the Charter

The purpose of this Charter is to set out the nature, objectives, outcomes and responsibility of the Internal Audit Service along with the scope of its activities within its client organisations. This therefore forms the basis of the terms of reference for the function.

Alongside the Charter is the Internal Audit Strategy. Whilst not specifically a requirement of the Public Sector Internal Audit Standards (PSIAS), the Strategy sets out how the Charter will be delivered and forms a key part of the Business Planning process.

The PSIAS are mandatory guidance and constitute principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. An important element of these standards is the requirement to have a formal Charter.

3. Definition of Internal Audit

The PSIAS provides the following definition of Internal Audit:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

This definition encourages a collaborative style of audit review which focuses on evaluating and improving the effectiveness of risk, control and governance and therefore goes significantly beyond basic compliance.

The Barnsley Internal Audit Service operates within a challenging environment across all client organisations to deliver the services each requires and to ensure it does so providing added value. The Service needs to be able to react and adapt to the rapid pace of change which is taking place both locally, regionally and nationally. Accordingly, the Charter has been extended to include the aspirations of the Internal Audit Service, which are to:

- develop and enhance relationships particularly where a client organisation is undergoing significant change to ensure that the service is aware of and understands its needs and objectives
- promote and support clients with regards to an increase in regional and collaborative working
- understand its position with respect to the organisation’s other sources of assurance and plan our work accordingly
- be seen as a catalyst and support for change at the heart of the organisation
- be the auditor of choice, delivering exceptional client service
- add value and assist the organisation in achieving its objectives
- be forward looking – knowing where the organisation wishes to be and being aware of the relevant national agenda and its impact
- be innovative and challenging
- help to shape the ethics and standards of the organisation, reducing bureaucracy whilst maintaining high standards of governance
- ensure the right resources are available, recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly. All staff are supported in undertaking relevant professional qualifications and continuous professional development
- share best practice with other internal auditors, clients and other professional services (e.g. financial services) and
- seek opportunities for joint working with other organisations’ auditors.

4. Scope of Internal Audit

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the

governance, risk management, and internal control processes in an organisation as well as the quality of performance management in carrying out assigned responsibilities to achieve the objectives of the organisation.

5. Responsibilities and Objectives of Internal Audit

The responsibilities and objectives of Internal Audit are as follows:

- i. To be a valuable asset to the organisation by supporting senior management in meeting their corporate responsibilities.
- ii. To contribute to assurances to those charged with governance in relation to the robustness and reliability of internal controls, risk management and governance to support the Annual Governance Statement (AGS).
- iii. To support the Statutory S151 Officer / Chief Financial Officer in discharging their duties.
- iv. To review, appraise and report on the extent to which the assets and interests of the organisation are accounted for and safeguarded from loss and the suitability and reliability of financial and other management data and information.
- v. To support the requirement to seek efficiency including the arrangements for achieving value for money and effective change management.
- vi. To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements. Such assurances include information technology governance and ethical behaviour.
- vii. To assess the adequacy and effectiveness of the organisation's contracts, procurement, commissioning and associated governance arrangements.
- viii. To assess the corporate risk management process and make recommendations to improve and embed the process where required whilst ensuring that Internal Audit does not adopt management responsibilities for managing risks.
- ix. To evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, to reduce the incidence of fraud and irregularity by publicising the findings of fraud investigations to act as a deterrent and provide a quality corporate fraud and irregularity prevention, detection and investigation service.
- x. To disseminate examples of best practice in the application of an effective control, risk and governance framework.
- xi. To provide an Internal Audit advisory service intended to add value and improve governance, risk management and control processes.
- xii. To provide advice and an objective and supportive consulting service in respect of the development of new programmes and processes and / or significant changes to existing programmes and processes including the design of appropriate controls. This is usually achieved through membership of Officer Groups, Governance and other Boards or working parties as well as direct contact with officers within services /

functions / departments. Such advice and consultation work forms an important part of the audit plan.

- xiii. To prepare timely, concise and informative reports to management to facilitate the improvement of the control environment.
- xiv. To undertake Audit support activities in respect of assisting the Audit Committee (or equivalent) to discharge its responsibilities; monitoring the implementation of agreed recommendations; disseminating across the entity better practice and lessons learnt arising from its audit activities, and having oversight of the audit function.

6. Organisational Independence of Internal Audit

Independence:

An independent approach and mindset is essential to the effectiveness of the Internal Audit function. To ensure this, Internal Audit will operate within a framework that allows:-

- Unrestricted access to the 'Chief Executive'; the 'Section 151 Officer'; the Chair of the Audit Committee and Audit Committee Members; individual Senior Management Officers; employees and the responsible External Auditor.
- The HoIA reporting in his own name.
- Segregation from line operations.

The Internal Audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in original line processing functions or activities.

Internal Auditors are generally not involved in undertaking non-audit activities and an Auditor will not be involved in the audit of any system or process for which they had previous operational responsibility for a period of two years.

Audit responsibilities are periodically rotated to avoid over-familiarity and complacency and also to provide for service continuity and resilience.

Objectivity:

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by:

- i. taking part in any activity or relationship that may impair or be perceived to impair their unbiased assessment;
- ii. declaring any real or perceived interests on an annual basis. In addition, a prompt is included at the assignment planning phase of each audit;
- iii. accepting anything that may impair or be seen to impair their professional judgement such as gifts, hospitality, inducements or other

- benefits from employees, clients, suppliers or other third parties in accordance with the Code of Conduct;
- iv. disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review;
- v. not using information obtained during the course of duties for personal gain and;
- vi. complying with the Bribery Act 2010.

Confidentiality:

Internal Auditors are expected to display confidentiality by:

- i. acting prudently when using information acquired in the course of their duties and protecting that information and;
- ii. not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

Integrity:

In the conduct of audit work, Internal Audit staff will:

- i. comply with relevant professional standards of conduct and perform their work with honesty, diligence and responsibility and;
- ii. observe the law and respect and contribute to the legitimate and ethical objectives of the Authority.
- iii. observe the Standards of Public Life's Seven Principles of Public Life.

Competency:

Internal Auditors are expected to be competent in their role by:

- i. possessing the knowledge, skills and technical proficiency relevant to the performance of their duties;
- ii. being skilled in dealing with people and communicating audit, risk management and related issues effectively;
- iii. maintaining their technical competence through a programme of continuous professional development;
- iv. exercising due professional care in performing their duties and;
- v. conform with the PSIAS. NB: Any non-conformance with the PSIAS will be disclosed within the engagement results / output including the reasons for the non-conformance and the impact.

7. Accountability, Reporting Lines and Relationships of the HoIA

Accountability:

In relation to organisations governed by public sector legislation, (e.g. the Accounts and Audit Regulations 2015, Regulation 5 and Police Reform and the Social Responsibility Act 2011), such organisations are responsible for maintaining an adequate and effective Internal Audit function.

Reporting Lines and Relationships:

Within Barnsley MBC as the direct employing organisation, the HoIA reports administratively to the Service Director – Financial Services and has strategic and operational responsibility for the Internal Audit function and fulfills the specific role of the HoIA.

Within each client organisation the HoIA will be responsible to a designated senior manager (usually the chief financial officer or chief executive).

While audit plans are considered by a range of senior managers and the Audit Committee, the professional responsibility for Internal Audit coverage rests with the HoIA who may determine and change the Internal Audit Service's own priorities as appropriate. The HoIA has a functional reporting line to the Chair of the Audit Committee, the 'Chief Executive' and SMT Members, or equivalent.

The HoIA reports periodically to the Audit Committee. The reports provide information in respect of:

- i. Periodic reports detailing: the audits completed; an assurance opinion on the overall state of internal controls for that particular period along with any fundamental issues requiring management attention based on the work of internal audit; progress in implementing the strategy and audit work plan; the status of the implementation of agreed internal audit recommendations;
- ii. an annual report on the overall state of internal controls and any fundamental issues requiring management attention based on the work of internal audit as reported within the periodic reports and;
- iii. an annual report summarising the outcome of the review of the effectiveness of the internal audit function which is required under the PSIAS.

Internal and External Audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise any duplication of effort. Periodic meetings and contact between Internal and External Audit will be held to discuss matters of mutual interest. External Audit will have full and free access to all Internal Audit plans, working papers and reports. Similarly the function will coordinate its activities with other regulatory / inspection bodies.

Where it is appropriate Internal Audit will liaise with other internal functions or inspectorates, to ensure work is co-ordinated, mutually beneficial and where applicable utilised for assurance purposes (e.g. HMIC).

It is important to stress the existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

8. Arrangements for Anti Fraud and Anti Corruption

Arrangements are set out within the organisation's anti-fraud and corruption policies and other supporting guidance. The HoIA should be notified of all suspected or detected fraud, corruption, impropriety or other irregularity, in order to inform the annual Internal Audit opinion and the risk-based plan.

Internal Audit's role in respect of fraud-related work is as follows:

- i. In support of the organisation's anti-fraud, Whistleblowing, Money Laundering, bribery and corruption policies, Internal Audit prepares periodic guidance for managers and the Board;
- ii. To undertake proactive fraud detection work in high risk areas as defined by the risk management process;
- iii. To co-ordinate Barnsley MBC's, SY Fire and rescue Authority, SY Police, PCC and SY Pensions Authority response to the mandatory National Fraud Initiative (NFI) exercise;
- iv. To contribute to corporate counter fraud arrangements and;
- v. In certain circumstances and where discussed and agreed with management, Internal Audit (through the Corporate Anti-Fraud Team) assume a lead role in the investigation of alleged irregularities. Internal Audit will provide guidance and support to management throughout the investigatory process. The balance of work between that undertaken by Internal Audit and management will be kept under review to ensure the most appropriate use of specialist resources. With this in mind it is anticipated that Internal Audit will spend increasingly less time undertaking routine investigations.

9. Authority of Internal Audit

In accordance with the PSIAS, the scope of Internal Audit allows that in fulfilment of audit responsibilities unrestricted coverage of all the organisation's activities and unrestricted access to all functions, records, data, personnel, premises and assets of the organisation and its partner organisations, as deemed necessary in the course of audit work and as set out in relevant partnership agreements and contracts.

Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The HoIA and staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

10. Appropriate Resourcing of Internal Audit

At least annually, the HoIA will submit to the 'Chief Executive' and the Audit Committee an Internal Audit plan for review and approval. The plan will consist of a work schedule and resource requirements for the next financial

year. The plan will include the impact of any resource limitations and significant actual or planned changes.

The Internal Audit plan is developed based on a risk-based methodology to determine the prioritisation of the audit work, including input of senior management and the Audit Committee. Any material deviations from the approved Internal Audit plan are communicated to the Audit Committee through periodic activity reports.

11. Client Organisations

The Internal Audit Service provides an internal audit function to the following clients. An approximate number of planned days allocated to each of these client organisations is shown below.

Client Organisation	Approximate Allocation of Planned Days *
Barnsley MBC (excluding Corporate Fraud Team)	Approx. 1,300
South Yorkshire Police Chief Constable	Approx. 500
South Yorkshire Police & Crime Commissioner	Approx. 150
South Yorkshire Fire and Rescue Authority	Approx. 260
South Yorkshire Pensions Authority	Approx. 260
Sheffield City Region Combined Authority	Approx. 100
South Yorkshire Passenger Transport Executive	Approx. 200
<p>Berneslai Homes:</p> <p>Work undertaken for Barnsley MBC's housing provider, an ALMO. This work is governed through a service level agreement. Berneslai Homes market tested the provision of Internal Audit services for a third time during 2013 and extended the SLA for a further 3 years.</p> <p>Coverage of housing matters is very similar to that prior to the establishment of the ALMO and therefore provides assurances to the Council which remains the ultimate landlord and responsible for the housing revenue account.</p>	Approx. 130
<p>Academies:</p> <p>The function also intends to market audit and risk management services to Academies. The level of resource expended on this area of work will be kept closely under review in order to ensure that there is no detrimental impact on level of resources required to undertake Internal Audit work on behalf of existing client organisations.</p>	To be agreed
Corporate Anti-Fraud Team	Approx. 600

* Internal Audit plans are currently being finalised.

Other Bodies:

The Internal Audit service will seek to expand the service by exploring opportunities to tender for internal audit work where there is a clear benefit in terms of operational synergies, economies of scale, service continuity and staff development. Consideration will always be given to ensure continuity and quality of service to existing clients.

INTERNAL AUDIT STRATEGY

2016/17

Contents

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- 2. Internal Controls Assurance**
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- 4. Other Areas of Internal Audit Work**
- 5. Reporting and Communications**
- 6. Internal Audit Resources**
- 7. Performance Management**
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- 9. Management of the Internal Audit Service**

1. PURPOSE OF THE STRATEGY

- 1.1 This document sets out the continuing strategy for Internal Audit. The Strategy demonstrates how the Service will meet the aims and objectives set out in its Charter, and therefore how the Service will support the overall aims and objectives of its clients, while maintaining professional standards and demonstrating efficiency, effectiveness and value for money.
- 1.2 The Strategy also describes how the outcome of this work is reported and communicated to stakeholders, and how the Service resources its work through recruitment, staff development and succession plans.

2. INTERNAL CONTROLS ASSURANCE

2.1 Annual Governance Statement (AGS)

Regulation 3 of the Accounts and Audit Regulations 2015 states the responsibility of the organisation to maintain “a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective, and includes arrangements for the management of risk.”

The Regulations require that the effectiveness of its system of internal control is reviewed at least annually, and include a statement alongside its published annual accounts, providing an opinion on the overall control environment.

The AGS is first and foremost a corporate statement and should not be regarded as an “audit requirement”. However, Internal Audit has an important role in the provision of assurances and evidence to the Audit Committee and senior management in support of the Statement. Internal Audit will provide an annual opinion on the effectiveness of internal controls as reviewed in the programme of work, which will be reported to the Audit Committee shortly after the year end. The requirement to have a Statement covering all aspects of internal control significantly widens the remit of Internal Audit in providing supporting assurances.

The AGS is derived through a variety of sources of assurances and supporting evidence. One of the key sources of assurance is derived from the contribution made by Internal Audit. This contribution principally comprises:-

- An annual risk based and comprehensive Internal Audit plan which focuses on evaluating and improving the effectiveness of risk management, control and governance processes.
- An annual review of risk management arrangements.
- A cyclical risk based review of the application of corporate policies and regulations.
- An annual review of the assurance statements provided by senior management.
- Where appropriate, an annual review and reporting on compliance with the Corporate Code of Governance in support of the AGS.

Risk based auditing is addressed in more detail below. Internal Audit will ensure that resources are prioritised to undertake the work specified above.

3. RISK MANAGEMENT AND RISK BASED AUDITING

3.1 Introduction

Risk based audit (RBA) has evolved in response to both the enhanced corporate governance requirements expected of organisations and the principles of modern risk management which demand that the risks relating to an organisation's ambitions and objectives be assessed, addressed and reported.

3.2 Interaction with Corporate Risk Management Arrangements

In accordance with the principles of RBA, Internal Audit should expend resources and develop a portfolio of auditable areas which is suitably prioritised based on the areas presenting greatest risk to the organisation. To achieve this objective, Internal Audit will consider the organisation's strategic planning information. Strategic, operational and project risk registers also form a vital reference point for the annual planning process, allocating resources to significant risk areas in discussion with management, the Risk Management Service of the organisation and utilisation of the risk register information.

The adoption of risk based auditing results in a new plan every year based on significant current risks, which may mean that auditable areas and systems deemed as low risk or of less materiality may be covered less frequently.

Internal Audit's ability to adopt a risk based approach is very much reliant on the status and maturity of the organisation's risk management processes. This planning process takes into account the balance required between allocating audit resources to areas of significant risk, maintaining sufficient provision to support key initiatives and others areas of work required to support the responsibilities of the statutory officers.

The Head of Internal Audit (HoIA) retains the right and responsibility to adjust the programme of work balancing available resources, prevailing risks, requests from management using his own professional judgement.

3.3 Internal Audit Coverage of Risk Management Arrangements

A key element of assurance in support of the AGS will be an audit opinion on the effectiveness of corporate risk management arrangements. For risk based auditing to be effective and provide reasonable assurance there needs to be confidence in the risk management process utilised by the organisation. This is demonstrated through audit coverage designed to provide an assessment of the status and maturity of the organisation's risk management process. This provides an opinion/assurance on the following:-

- That the organisation's objectives support and align with the organisation's mission;
- Significant risks (and opportunities) are identified and assessed;
- Appropriate risk responses are selected that align risk with the organisation's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the Audit Committee to carry out their responsibilities.

3.4 Audit Planning

The outcome of the above review will inform the audit planning process. Having a mature risk management process aids the application of a risk based approach to audit.

The following are the key issues in the development of the risk based audit plan:-

- An understanding of the organisation's vision and ambition, as articulated within the organisation's strategic plans and ensuring that audit coverage is directed towards these areas of corporate importance.
- Identification of the significant (key) risks arising from the above and understanding which areas of service delivery the significant risks impact upon.
- Internal Audit provides support to management and directs resources to areas where the Service can add value and support change and innovation.

4. OTHER AREAS OF INTERNAL AUDIT WORK

In addition to the emphasis on work in support of the AGS, other key areas of Internal Audit coverage are as follows:

4.1 Main Financial Systems Work

Main financial systems are a traditional element of Internal Audit work, but one which will need to remain in annual audit plans for the foreseeable future. This work is primarily undertaken on behalf of the s151 officer in support of their statutory responsibilities.

External Audit takes the findings of Internal Audit work into account in determining their approach and coverage in order to support their opinion on the accounts. More recently, External Audit coverage of main financial systems has decreased and the approach is based on an annual risk assessment which determines the system/s where reliance is required.

In accordance with the risk based approach, the audit of the main financial systems is reviewed each year and the audit strategy and approach to financial systems is revised accordingly in agreement with the Section 151 Officer.

4.2 Change and Innovation / Efficiency Drive / Savings

In support of change and innovation, Internal Audit will dedicate resources in order to independently assess the effectiveness of associated initiatives and change programmes in relation to the impact on internal controls, risk and governance arrangements. Emphasis is placed on the organisation remaining 'safe' throughout a period of significant change to its risk profile.

4.3 Systems Development Work

Internal Audit continues wherever possible to adopt a proactive approach to an organisation's change programme and the development of significant new or changed systems. This approach entails the provision of comment and input to developing systems rather than waiting to audit them after implementation. This approach also aims to ensure that new systems contain appropriate levels of internal control, and achieve the purpose for which they are being implemented, at a stage where the system can still be amended to accommodate changes.

Internal Audit do not however have a right of veto over new systems and the role in such developments is one of independent advisor / 'critical friend'.

4.4 IT and Information Governance

Internal Audit will assess whether the organisation's overall IT and information governance arrangements sustain and support its corporate strategies and objectives. Internal Audit will also provide independent advice as these governance arrangements are revised and developed, reflecting as necessary changes in legislation, guidance and technology.

4.5 Corporate Issues and Projects

Internal Audit will seek to be involved in significant projects, in a non-executive advisory capacity. Examples include change programmes, service redesign due to staffing reductions, integration of systems or collaborations with other organisations.

Over the last few years, the number of requests received from senior managers requesting Internal Audit involvement in such projects has increased. This increase is likely to continue given the growing alignment of the Internal Audit function with risk management. In addition, this type of "reactive" work reinforces the need to establish and maintain a flexible audit plan in order that the Service can demonstrate that it is responding to the needs of senior management, emerging risks and the general direction of travel.

4.6 Non Financial Audit and Advisory Services

A important and significant part of Internal Audit work relates to the need and ability to respond to unplanned work from senior management arising during the year. This unplanned work tends to be support to initiatives, projects and

changes in priorities and also has a generally less financial perspective. Internal Audit will always seek to preserve flexibility to provide such support.

Provision for specialist and general advice on controls, governance and effectiveness is a key part of the Audit service. A measure of Internal Audit's profile is the increasing trend for management to contact the service before a course of action is undertaken.

As with the involvement in corporate projects, this type of work is unlikely to reduce with the growing alignment of Internal Audit plans with significant risks. Careful management of all Internal Audit work will continue to ensure that sufficient resources remain to provide the required corporate assurances in support of the AGS and statutory financial responsibilities.

Fee paying work such as grants / accounts will be considered and developed, and undertaken where this is in the interests of both the Internal Audit Service and the organisation as a whole. Accordingly, daily chargeable audit rates will be reviewed on an annual basis.

Internal Audit operates a contingency of unallocated days to provide capacity to undertake such work and therefore minimising the impact on planned risk based work.

4.7 Fraud Prevention and Investigations

It should be noted and recognised that the ultimate responsibility for the prevention and detection of fraud lies with management. Internal Audit act as an aid to management by assessing internal controls designed to prevent the occurrence of fraud and corruption and the associated fraud risks and assisting in the progression of management investigations and disciplinary action.

It is a duty of management to alert Internal Audit should there be a suspicion of fraud or irregularity, whether it is of a financial nature or not.

A Corporate Anti-Fraud Team exists within Internal Audit. Whilst the main focus of this Team is to look at local taxation fraud issues, it will support organisations in broader aspects of anti-fraud and corruption work.

In general terms the role of Internal Audit (and the Corporate Anti-Fraud Team) in respect of fraud related work is set out within the Charter. In summary, this includes:

- Provision of fraud awareness training for senior managers, officers and Members (where applicable) highlighting responsibilities for the prevention and detection of irregularities;
- Bulletins or alerts highlighting recent local and national incidents to raise awareness of internal controls and the warning signs of fraud and what to do where fraud is suspected. These will be supplemented by the production of good practice guides for systems and transactions known to be susceptible to fraud. These will be made available on the Internal Audit Intranet site.

The Service will also undertake proactive fraud detection work in high risk areas as defined by the risk management process. In undertaking this work, Internal Audit will seek to develop in conjunction with management improved management information interrogation facilities in order to detect fraud. The Service will where applicable also co-ordinate the organisation's response to the statutory National Fraud Initiative (NFI) exercise.

Through the Corporate Anti-Fraud Team, Internal Audit has dedicated resources for fraud and irregularity work. Investigatory work however sometimes requires resources from the wider team. Additional capacity arising during an audit year may be deployed from within the core audit function. The impact of the allocation of these resources on the Service's ability to provide statutory assurances will be monitored.

4.8 Non-Audit Work

Whilst there are no plans to undertake any non-audit work, there may be an occasion where this is necessary. Should this be the case then arrangements will be put in place to ensure an appropriate separation within the Internal Audit function to preserve independence and objectivity.

5. REPORTING AND COMMUNICATIONS

5.1 Reporting and Agreement of Audit Plans

Annual Internal Audit plans are discussed with Executive Officers along with Statutory Officers. The Chief Executive or equivalent is also specifically consulted at the end of the planning process to give assurances of the plans breadth and overall coverage. The annual plan is reported formally to the respective Audit Committee.

5.2 Audit Reporting and Follow-up of Recommendations

In reporting the outcome of individual audit assignments, the Service will, where appropriate, follow a proactive and consultative approach to management, the key principles of which are:-

- Advance discussion and agreement of the scope and objectives of audit assignments, and the timescales for the completion of the work along with the recipients of the audit report.
- Immediate reporting of any fundamental or critical issues arising during the course of audit work.
- Post audit meetings (with or without a draft report as required) to discuss the conclusion and outcome of audit work on a prioritised basis and to agree management actions and timescales.
- Any areas of disagreement which are not resolved by discussion are recorded in the action plan and the residual risk highlighted within the report.
- Providing management with the opportunity to give feedback to the Service on how valuable and effective they found the audit process.

The process for the communication of audit work is designed to conform with the PSIAS.

Final audit reports will include an overall assurance opinion on the adequacy and effectiveness of the system of risk management, controls and governance arrangements. The report will be issued on a timely basis and responses sought from senior management on the implementation of agreed recommendations. The non-receipt of a response will be followed up with the responsible manager and reported to the Audit Committee.

A process has been established to monitor and follow-up agreed actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action. The Service follows up all fundamental and significant recommendations (including merits attention recommendations for the main financial system audits). The results of this work are reported to the Audit Committee. The follow-up procedure will be reviewed with management to ensure it is effective.

In order to proactively engage and support services, approximately four weeks prior to the presentation of the Audit Committee Report, details of outstanding report recommendations are issued to the responsible senior officers. This follow-up and reporting procedure to the Audit Committee raises the profile and status of audit reports, compliance with audit procedures and improvement in controls.

5.3 Reporting of Ad Hoc Advice and Development / Consultancy Work

Internal Audit undertakes a variety of tasks which do not justify a formal audit report, e.g. responding to one-off queries, advice and consultancy type work given verbally at meetings e.g., projects and developments. The Service ensures that details of advice given and recommendations made are recorded by the retention of memos / copy e-mails, or file notes and minutes of meetings. Such records are retained in respect of advice given which is likely to (or intended to) influence management decisions or effect changes in systems and processes. The results of this work is considered as part of the overall controls assurance opinion.

Issues and risks arising would also be recorded within project and operational risk registers in order to be managed by project lead officers. Details of issues arising would not necessarily be reported separately to the Audit Committee. However, details of the engagement and work undertaken would be recorded within the respective Audit Committee Report and any material issues would be followed up in accordance with the standard reporting and monitoring process.

5.4 Reporting to the Audit Committee

Internal Audit reports as follows :-

- Details of audit plans, performance against plans and against key performance measures, and on significant control or compliance issues arising from audit work, longstanding recommendations and

management responses, completed projects / advice, unplanned, cancelled or deferred audit work.

- To client Audit Committee's on its performance and on individual audit reports.
- Audit Committees provide a route for the escalation of a failure to respond to audit reports, or the non-implementation of agreed recommendations, with the potential for management to be called to answer to the Committee.
- The Audit Committee receives an annual report summarising the outcome of the review of the effectiveness of the internal audit function which is required under the PSIAS.

5.5 Annual Report of the Head of Internal Audit

The annual report to the Audit Committee includes the HoIA's opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control as determined from the programme of work undertaken. The following elements are incorporated into annual audit reports:-

- The HoIA's opinion on the overall effectiveness of the organisation's internal control, risk management and governance environment.
- Disclosure of any qualification to this opinion, together with the reason for the qualification.
- The disclosure of any impairments or restriction in scope of audit work.
- A summary of the audit work undertaken to provide this opinion, including any reliance placed on assurance work by other bodies.
- Details of any issues that the HoIA judges to be particularly relevant to the AGS.
- A comparison of work actually undertaken with the work originally planned and a summary of the performance of Internal Audit against its performance measures and criteria.
- An opinion on the compliance with the Service's performance measures.
- A statement to confirm work has been completed independently and in accordance with the PSIAS.
- The results of the Quality Assurance Improvement Programme (QAIP).
- Any other issues that the HoIA judges is relevant to the preparation of the AGS.

5.6 General Information for Management

As part of our Service Standards, half yearly progress reports are provided to each client.

Internal Audit seeks to proactively provide management with information about audit work and how the function can be contacted. This is achieved by attendance at Management Team meetings as part of the annual planning process, and / or at the request of an Executive officer.

The Internal Audit service will aim to establish an area within each organisation's intranet to provide general information about the function, contact details, useful documents and reference material with a view to ensuring that clients understand the Internal Audit function. The Intranet site will be subject to continuous review, update and development. In addition, proactive meetings are held with key officers to promote greater understanding of the purpose and function of Internal Audit.

5.7 External Audit Provider, Other Inspectorates or Auditors

The HoIA will ensure that there is effective liaison with External Audit, through regular meetings with representatives from the External Audit provider and the sharing of information. A formal protocol exists, setting out the joint working arrangements.

Where roles and responsibilities of other Inspectorates potentially overlap or conflict, Internal Audit will ensure there is adequate liaison and co-ordination, including as necessary, a formal 'memorandum of understanding' or protocol.

Good liaison arrangements exist between the Internal Audit departments across the South and West Yorkshire region which ensures cooperation and the sharing of information.

6. INTERNAL AUDIT RESOURCES

6.1 Current Structure and Staffing

Due to significant financial pressure the core Internal Audit Service has been required to reduce its budget by over 30% over the last 5 years. Additional external income achieved in 2015/16 which was a major contribution to meeting savings targets required through the Future Council programme for the Council.

The budget setting and service delivery process will take into account the financial requirements of each client organisation and seek to ensure there remains an effective structure and overall level of resource.

The overall impact of the budget changes will be closely monitored.

The level of available resources aims to provide the statutory assurances and respond to demands on the Service. The aim is to develop a flexible Audit team with a broad and professional skill base to audit the full range of governance arrangements and services. This has included the development of specialists covering procurement / contracts / commissioning / corporate governance / IT / IS, project management and fraud / investigations.

Staffing resource issues are reported to the respective Audit Committee.

The current structure of the Division provides for 19 full time equivalent posts. Of these 3 are in the Corporate Anti-Fraud Team.

The structure is as follows:-

Head of Internal Audit
2 Audit Managers
4 Principal Auditors
7 Senior Auditors
2 Auditors

Principal Auditor – Corporate Fraud Team (reporting to the HoIA)
Senior Corporate Fraud Investigator
Corporate Fraud Investigator

6.2 Use of External Providers

Provision is made to enable the buying-in of specialist audit resources where a gap is identified or additional demand needs to be met.

6.3 Reliance on Other Sources of Assurance

Internal Audit will, where appropriate, utilise and rely upon other sources of assurances to inform the audit opinion. For example, where there have been external inspections relevant to the scope and objectives of audit work, e.g. inspections or external audit reports, the results of this external work will be taken into account.

Internal Audit does work co-operatively with services charged with performance management and the implementation of corporate policy (e.g. Human Resources or Performance or Business Change Functions) in order to avoid duplication of effort and to maximise the impact of compliance and monitoring work.

6.4 Protocols for Working with Other Bodies

Where Internal Audit needs to work with the Auditors of other organisations, protocols and joint working procedures will be drawn up and mutually agreed to establish and define relative areas of responsibility, reporting arrangements, liaison meetings, and the sharing of information.

Internal Audit will also seek to liaise with relevant functions within the client organisation to ensure that corporate resources are maximised.

6.5 Equality and Diversity

In accordance with the Equality Standard in Local Government it is important that all Internal Audit staff have an appreciation of equality and diversity. Accordingly, staff awareness training is provided. In addition, each audit assignment requires the audit team to consider any particular equality and diversity issues relevant to the nature and type of each audit assignment. A question is also included within the client feedback questionnaire regarding how

effectively the Auditor(s) dealt with and considered equality and diversity issues during the audit.

In addition, service policies and procedures are Equality Impact Assessed in accordance with the required corporate protocol.

6.6 Training and Continuing Professional Development

Internal Audit has a policy of regularly reviewing the skills needs of the Service, and identifying the training and development necessary to meet these needs in accordance with its Training and Development Strategy.

For several years the Service has operated a Personal Development Review (PDR) process to identify and prioritise both individual and collective training and development needs. Accordingly, the Service has developed a strategy which demonstrates how training and development needs will be achieved.

Training needs for staff are also considered following the completion of each individual audit assignment.

Given a reduction in the overall level of available resource, a specific priority has been to develop a professional training programme for staff. A professional training programme will remain a priority for the Service throughout 2016/17 and as such the allocation of 'training days' will be maintained in accordance with personal development plans.

Future training and development will take into account the diverse client base the Service now has. Opportunities to utilise client training programmes will also be explored to maximise resources and ensure Internal Audit staff remain up to date with service developments etc.

7. PERFORMANCE MANAGEMENT

7.1 Performance Management

As part of service planning and performance management, Internal Audit has a suite of performance indicators which are monitored on a regular basis throughout the year.

Key indicators relating to the performance of Internal Audit are reported to the respective Audit Committee.

7.2 Internal Audit Quality Assurance and Improvement Programme (QAIP)

A QAIP is in place which covers all aspects of the Internal Audit activity. The QAIP is designed to assess the efficiency and effectiveness of the Internal Audit function and identify opportunities for improvement. The QAIP comprises:

- (i) A procedure manual
- (ii) All audit work is allocated to staff with the appropriate skills, experience and competence.

- (iii) A system of quality controls established within the Audit Management System (automated system) to ensure that key checks are undertaken and correct processes are followed.
- (iv) Managers undertaking sample audit checks for quality compliance.
- (v) Analysis of client feedback from individual jobs.
- (vi) Analysis of client feedback from an annual effectiveness questionnaire.
- (vii) Any feedback received from External Audit as part of their work on the main financial systems or other work.
- (viii) Use of performance indicator information.

Internal Assessments:

In accordance with the PSIAS the Internal Audit Service undertakes an internal assessment on an annual basis. The results of this assessment are presented to the organisation's Audit Committee as part of the annual review of the effectiveness of the function.

External Assessments:

In accordance with the PSIAS an independent external review will be undertaken at least every 5 years. The Audit Committee and the Director of Finance, Assets and Information Services approved the Terms of Reference for this assessment which was completed in December 2015. This external assessment resulted in a very positive report, confirming that the Internal Audit Service complied with the Standards in all aspects.

7.3 Audit Management System

Key to the provision of sound and robust performance management information is the Service's audit management system. Industry developments in audit management software have enabled the Service to upgrade its software with a far more advanced system. This system has been in place for a number of years and continues to be developed in order to enhance audit management information including the automation of audit assignments and evidence to support the preparation of the AGS.

Automation of the audit process continues to provide several benefits such as efficiency savings and facilitates flexible working arrangements. Development of this software is continuing in accordance with the development strategy. Accordingly, further resources will be invested, where appropriate, in the development of the audit management system.

7.4 Benchmarking

The Service will continue with Membership of the West and South Yorkshire Audit Group, an informal group comprising the Heads of Internal Audit of neighbouring local authorities. The group benchmarks audit, planning and quality processes. There are also sub-groups dealing with contracts, fraud, IT and education audit. The Service also participates in the CIPFA benchmarking service. Other specific sector networks will also be utilised.

8. AUDIT SKILLS

The breadth and coverage within the audit plan will necessitate the following high quality audit skills, both general and specialist:

- Risk based audit
- Procurement, contract management and commissioning audit
- IT / IS audit
- Project and change management
- Performance management
- Fraud investigation techniques

Equally important are the softer skills and attributes which enable a productive working relationship with audit clients to be formed. Staff will be required to develop and enhance such skills as:

- Persuading, influencing and negotiating skills
- Communication skills
- Ability to think creatively and imaginatively
- Listening and questioning skills

A challenging training programme is being developed to ensure all staff can provide the audit service required by all clients..

9. MANAGEMENT OF THE AUDIT SERVICE

A formal service standard has been issued to each client organisation receiving audit services. This provides management with a clear statement of the service provided with a view to enhancing accountability, transparency and quality of the audit service provided.

Item 5

Report of the Head of Internal Audit

AUDIT COMMITTEE – 23rd MARCH 2016

CORPORATE ANTI-FRAUD TEAM 2016/17 PLAN AND STRATEGY

Executive Summary

1. The Corporate Anti-Fraud Team supports the Council in its statutory obligation under section 151 of the Local Government Act 1972 to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption.
2. This report provides the Audit Committee with an updated Corporate Anti-Fraud Team Strategy and outlines a summary of the proposed counter fraud plan for 2016-17.
3. The Corporate Anti-Fraud Team Strategy, prepared by the Head of Internal Audit (HoIA) is intended to give the Audit Committee assurances regarding how the corporate counter fraud function is resourced, managed, organised and will deliver its responsibilities.

AUDIT COMMITTEE – 23rd MARCH 2016

CORPORATE ANTI-FRAUD TEAM 2016/17 PLAN

1. Purpose of Report

1.1 This report informs the Audit Committee of the Corporate Anti-Fraud Team's plan for 2016/17. The plan is supported by the Corporate Anti-Fraud Strategy.

2. Recommendations

2.1 It is recommended that:-

- i. The Corporate Anti-Fraud Team (CAFT) plan 2016/17 and supporting strategy is agreed, acknowledging the need for the HoIA to exercise his professional judgement during the year to apply the plan flexibly, allowing for planned proactive/detective days to be diverted to reactive investigation work as required; and**
- ii. the Audit Committee receive quarterly monitoring reports from the HoIA to demonstrate progress against the plan including information where the plan has materially varied from the original plan.**

3. Introduction and Background

3.1 The Corporate Anti-Fraud Team, formed on 1st April 2015 and reporting to the HoIA, is responsible for co-ordinating all counter fraud activities across the Council of both a proactive and reactive nature.

3.2 CAFT's strategic approach to countering fraud is to:

- Promote a counter-fraud culture and engage employees, members and external clients in combating fraud and error collectively;
- Investigate and report on identified fraud, error and debt, seeking appropriate sanctions and redress where fraud is proven;
- Assess fraud risk, identifying the areas most vulnerable to fraud and assisting management to develop effective counter fraud controls; and,
- Share good practice and develop effective internal and external relationships to combat fraud.

3.3 The team has been pro-active during its first year, successfully leading a Council Tax Single Person Discount Review which has so far resulted in 1,218 discounts being removed and an additional £333,256 Council Tax income being raised across the identified Council Tax accounts. The review is not yet complete and additional outcomes are expected over the next few months.

3.4 In addition to the above the team have:

- successfully prevented a fraudulent Right to Buy application from being processed;

- identified £136K overpayments via the National Fraud Initiative data matching exercise;
- Supported Berneslai Homes to recover two properties which were not being used by the tenant's as their main homes;
- Obtained delegated authority to investigate tenancy fraud under the Prevention of Social Housing Fraud Act 2013

4. Corporate Anti-Fraud Team Strategy

4.1 The Corporate Anti-Fraud Team Strategy has been revised to reflect emerging corporate risks and to target investigative resources efficiently and effectively.

4.2 The key aim of the Strategy is to ensure that public funds entrusted to the Council are protected against fraud and loss. To do these the key objectives of this strategy are:

Acknowledge / Deter	Continued development of the 'anti-fraud' culture which highlights the Council's zero tolerance of fraud, corruption and theft, defines roles and responsibilities and actively engages everyone including service users, the public, Members, staff, schools, contractors and partners.
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Prevent / Detect	Provide a centralised best practice counter fraud service within Internal Audit which: <ul style="list-style-type: none"> • Proactively detects error, loss, fraud, corruption and theft; • Works with services across the Council and with partners to support counter fraud activity; • Advises policy, system and control improvements, thereby reducing the Council's exposure to fraudulent activity.
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Investigate / Pursue	<ul style="list-style-type: none"> • Investigates suspected or detected fraud, corruption and theft; • Enables the Council to apply appropriate sanctions and recover losses wherever possible;
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4.3 The Corporate Anti-Fraud Team comprises of 3 fraud investigating staff. These counter fraud resources remain at the same level to the previous year.

4.4 A detailed operational work programme has also been developed to ensure the resources of the CAFT are utilised in an efficient, effective and accountable way. This detailed work programme will be reviewed on an on-going basis to reflect fraud trends, emerging risks and the general workload.

4.5 Whilst the primary focus for the CAFT is the Council, opportunities will be explored to offer services to Internal Audit's external clients. This will further increase income to the Council. External work will be undertaken however, where this is considered to be in the best interests of both the external client and the Council in respect of competing priorities and resources.

5. Key Aspects of the Plan

5.1 The key features of the 2016/17 Corporate Anti-Fraud plan are as follows:-

Area of Activity	2016/17 Days	%
Acknowledge / Deter		25
Review and update of counter fraud policy framework	50	
Provide counter fraud advice to management	36	
Increase corporate fraud awareness / publicity / benchmarking / transparency	58	
Prevent / Detect		28
Verification of Right to Buy applications	13	
Co-ordination of the 2016/17 National Fraud Initiative and investigation of subsequent data matches.	85	
Council Tax Single Person Discount credit reference data matching exercise	45	
Referrals to DWP / fraud hotline referrals	18	
Investigate / Pursue		41
Investigation of allegations of council tax discount, exemption and liability fraud. Applying appropriate sanctions on identified fraudulent claims	95	
Investigation of allegations of council tax support fraud. Applying appropriate sanctions on identified fraudulent claims	95	
Investigation (and prosecution where appropriate) of allegations of tenancy fraud including the recovery of properties where tenancy fraud is proven	25	
Investigation of Right to Buy irregularities	26	
Contingency	34	6
Total Chargeable Planned Days	580	100

5.2 CAFT resources will be available to undertake ethical anti-fraud work.

5.3 The level of proactive anti-fraud work will be dependent on the volume of reactive work received by CAFT. As a result not all areas may be reviewed in 2016-17. Any areas that are still relevant will be carried forward to 2017-18.

6. Performance Measures

- 6.1 CAFT's success will be measured by:
- Monitoring the quality of corporate fraud referrals (inputs) on a quarterly basis;
 - Measure the results (outputs) and success rate of corporate investigations on a quarterly basis;
 - Production of quarterly and annual reports to the Audit Committee

7. Risk Considerations

- 7.1 Failure to have robust counter fraud arrangements will increase the Council's susceptibility to fraud and will result in loss of public money.
- 7.2 The loss of assets and resources as a result of fraud is included within the Strategic Risk Register

8. Local Area Implications

- 8.1 There are no local area implications arising from this report.

9. Reduction of Crime and Disorder

- 9.1 An inherent aspect of counter fraud work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from investigations are always considered to ensure improvements in overall controls. Additionally, the Corporate Anti-Fraud Team will ensure that in specific instances, management takes appropriate action to minimise the risks of fraud and corruption occurring.
- 9.2 Where an investigation occurs that identifies potentially a criminal offence, the matter is always referred to the police.

10. Compatibility with European Convention on Human Rights

- 10.1 The Corporate Anti-Fraud Team will undertake all investigations in accordance with the provisions of the Data Protection Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

11. Employee Implications

- 11.1 There are no employee implications arising from this report. The staffing resources of Corporate Anti-Fraud Team are established in the approved structure and budget of the Section.

12. Financial Implications

- 12.1 The full cost of the Corporate Anti-Fraud Team has been budgeted for and included in the overall costs of the Corporate Services Directorate.

13. List of Appendices

14.1 Appendix 1 – Corporate Anti-Fraud Team Strategy

Office Contact: Head of Internal Audit
Telephone No: 01226 773241
Date: 10th March 2016

Corporate Anti-Fraud Team Strategy 2016/17

Introduction

Minimising fraud and irregularity is vital in ensuring resources intended to provide essential services to Barnsley residents are used for that purpose. Fraud committed against the Council is a theft of taxpayers' money, can cause reputational damage for the Council and a loss of confidence amongst the public or stakeholders, and have an adverse effect on staff morale. Through effective counter-fraud measures the Council can reduce the risk of error, loss and fraud. These include arrangements to acknowledge, deter, prevent detect, investigate and prosecute wrongdoing.

The Council has recognised the risk of fraud in the Strategic Risk Register:

Reference 3035: Loss of assets and resources as a result of a one-off incident of fraud / corruption / bribery or a sustained or widespread occurrence.

The work of the Corporate Anti-Fraud Team (CAFT) supports the protection of public funds by providing a value for money anti-fraud function for the Council. The team investigates allegations of frauds and irregularities, detects frauds and identifies losses enabling the recovery of Council funds. In addition, the team supports the application of appropriate sanctions including: prosecution, caution, administrative penalty and disciplinary action.

Ensuring that fraud and irregularity is kept to a minimum is a continual process. Whilst practical arrangements will evolve over time to reflect changes both internal and external to the Council, there is a constant requirement to be alert to emerging fraud risks and to take appropriate actions to address these risks. Changes arising from financial pressures and new methods of service delivery require the approach to be regularly reviewed and refreshed.

The team will offer support, advice and assistance on matters of fraud risks including prevention and detection. All of the CAFT's work will be carried out in accordance with Council policies and relevant Government legislation.

Background

On 1st April 2015 the Council's Housing Benefit Fraud Team transferred to the DWP's Single Fraud Investigation Service (SFIS) and, as part of Future Council restructures, the Corporate Anti-Fraud Team was formed within Internal Audit.

Much of the first part of 2015/16 was devoted to the establishment of the CAFT, including the induction of two new members of staff into Internal Audit (who have both successfully completed a CIPFA investigative practice qualification), the procuring of a third party supplier to assist with a review of council tax single person discount and the procuring of a fraud management system.

Throughout 2015/16 the CAFT has focused resources on corporate investigation work mainly involving council tax liability, council tax support, council tax single person discount review and the investigation of National Fraud Initiative (NFI) data matches.

It should be noted that the above investigation work has helped identify in excess of £469K overpayments (including frauds, errors and duplicate payments).

Approach to Countering Fraud

Whilst the CAFT will continue to investigate non-benefit and local taxation fraud the team will also have responsibilities for:

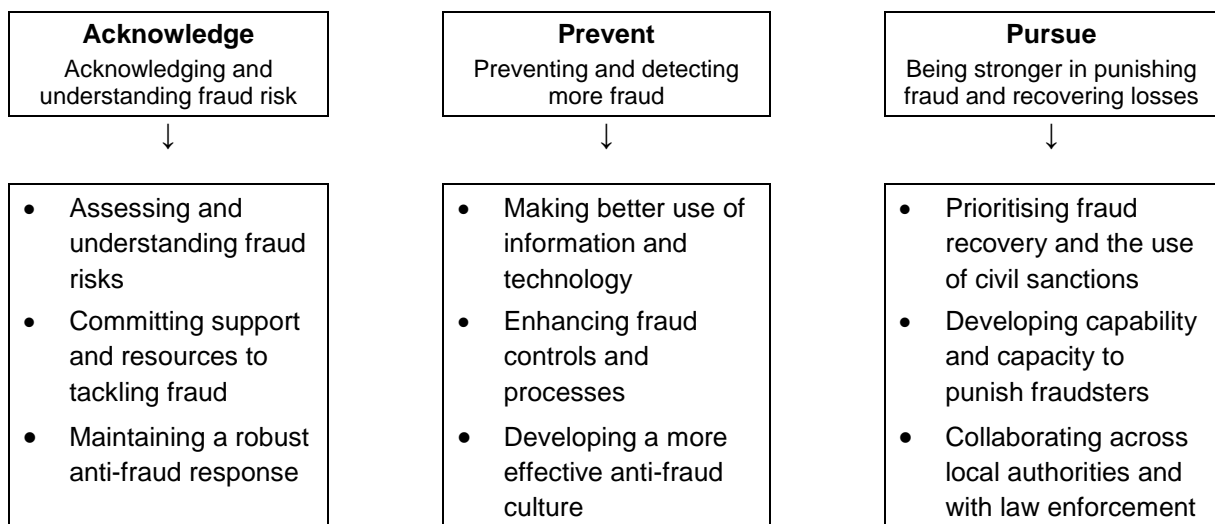
- Reviewing and updating the documents which form the Council's Counter Fraud Policy Framework;
- Co-ordinating and undertaking National Fraud Initiative investigations;
- Investigation of irregularities which appear to stem from errors or system weaknesses;
- Investigation of irregularities which appear to stem from fraud, theft, deception, bribery and corruption or collusion. To include internal and external cases and any surveillance requiring RIPA authorisation;
- Systems based anti-fraud reviews in high risk areas;
- Systems advice on fraud prevention and detection;
- Advice, guidance and training to managers on fraud investigation, awareness raising activities;
- Reporting to Audit Committee on irregularities arising from systems weaknesses;

- Reporting to Audit Committee on cases of fraud, theft, deception, bribery and corruption or collusion;
- Undertaking, reporting and improving the function through benchmarking and trend analysis;
- Assisting External Audit in their annual review of anti-fraud arrangements;
- National Anti-Fraud Network liaison, fraud/scam alerts, police liaison/protocols, bulletins, newsletters;
- Provide relevant and appropriate advice to external clients as requested.

In addition to raising fraud awareness throughout BMBC and its key partners, the Team's key objective is to investigate allegations of fraud, bribery and corruption, false accounting and collusion affecting the Authority involving customers, suppliers, contractors, employees, members and other stakeholders. All investigations are carried out in line with current procedures, guidelines and legislation.

Counter Fraud Work Programme

The CAFT's strategy and work programme is based upon the three key themes: Acknowledge, Prevent and Pursue, which form the basis of the national Local Government Fraud Strategy: Fighting Fraud Locally and calls for the adoption of a tougher approach to tackling fraud against and within Local Authorities.



Acknowledge

Activity	Detail	Target Outcomes
Review and update of Counter Fraud Policy Framework	<p>The key documents comprising the Counter Fraud Policy Framework are:</p> <p>Corporate Anti-Fraud and Corruption Policy and Strategy; Corporate Fraud Response Plan; Corporate Whistleblowing Policy; Prosecutions Policy; CTRS Anti-Fraud Policy; CTRS Sanctions Policy; Anti-Bribery Policy; Investigation guidelines. Anti-Money Laundering Policy</p>	To ensure that all corporate anti-fraud policies and guidance are relevant, up-to-date and accessible to all employees
Corporate Anti-Fraud Group	<p>The creation of a Corporate Anti-Fraud Group, with agreed Terms of Reference, which will meet at intervals agreed by the group members.</p> <p>The group will consist of representatives from departments of the council responsible for investigations.</p> <p>The key aims of the group will be to:</p> <ul style="list-style-type: none"> • Promote good practice with regard to investigation work; • Discuss current/future legislative issues, relevant to investigation work; • Discuss areas of known fraud and local/national intelligence to identify other potential areas for investigation; • Compile an inventory of investigative / surveillance equipment for corporate use; • Establish the need for a financial investigator with a view to agreeing a SLA with a neighbouring authority or South Yorkshire Police 	To share counter fraud intelligence to ensure an effective use of Council resources, prevent duplication of work and identify future areas of investigation work.
Computer Forensics	<p>It is important that the CAFT has access to technical and specialist support to investigate irregularities involving the use of IT.</p> <p>It is also important that the CAFT have an overall controlling and monitoring role in how computer forensics are utilised to ensure compliance with legislation and good practice.</p>	To ensure that IT investigations are conducted in accordance with legislation and good practice.
Continue and develop BOLD Fraud Awareness E-Learning	The E-Learning will raise the profile of counter fraud and will reinforce messages about the standards of behaviour expected from BMBC employees, ways to consider fraud risks and	Managers and staff are aware of fraud risks and how to raise suspicions of

Activity	Detail	Target Outcomes
	how and when to report suspicions of fraud.	fraud.
To raise the profile of the CAFT, fraud hotline and online fraud reporting forms	The team will use internal newsletters e.g. InBrief and the Council's website to publicise the work of the CAFT and the fact that the Council takes fraud and corruption seriously.	The source of referrals is recorded to help determine the success of the publicity.

Prevent

Activity	Detail	Target Outcomes
Publicity	All successful prosecutions will be publicised via the Communications Team as press releases. This may deter some members of the community from attempting to commit fraud against the Council and will evidence the Authority's commitment to investigating fraud and corruption.	To act as a deterrent factor and to evidence the Council's commitment to taking action against anyone who commits fraud.
Right to Buy	Since the implementation of the £75,000 discount in April 2012, Right to Buy sales and frauds have increased nationally. The CAFT will continue to work with the Right to Buy team to conduct a detailed check into applicants who have, or are in the process of purchasing their council property in order to provide assurance that applications are genuine and bona fide.	To identify instances of fraud or provide assurance that processes with regards to processing right to buy applications are effective.
Co-ordinate and manage the National Fraud Initiative (NFI) data matching exercise.	The NFI is the Audit Commission's biennial data matching exercise designed to detect fraud and error across the public sector. Data matches appearing in BMBC's NFI reports will be prioritised and investigated by the CAFT and any overpayments identified and savings made will be recorded.	To identify fraud, error and overpayments.
Continuation of the council tax single person discount review.	A pro-active data matching exercise to identify council tax payers fraudulently claiming a single person discount.	To identify fraud and error, apply sanctions where required and record potential savings made.

Pursue

Activity	Detail	Target Outcomes
Investigation of allegations of Council Tax fraud.	The team will investigate allegations of fraud and abuse of council tax, including exemptions, discounts and reliefs, and apply appropriate sanctions on identified fraudulent claims.	To identify fraud and error, apply sanctions where required and record potential savings made.
Investigation of instances of Council Tax Reduction Scheme fraud.	The team will investigate allegations of council tax support fraud and apply appropriate sanctions on identified fraudulent claims.	To identify fraud and error, apply sanctions where required and record potential savings made.
To provide an investigative support across all aspects of tenancy fraud	The team will investigate allegations of tenancy fraud including sub-letting and false succession applications and apply appropriate sanctions on identified fraudulent cases.	To identify fraud and error and apply sanctions where required.
To provide an investigative support across all aspects of the Council's service and functions (and external clients as deemed appropriate)	The Team will support management and/or specifically lead in investigations regarding allegations or suspicions of fraud, theft, bribery or corruption.	To ensure a successful and effective investigation to identify those responsible, ensure appropriate sanctions are applied and assist in the recovery of monies or assets.

Item 6

BARNSELY METROPOLITAN BOROUGH COUNCIL

Report of the Executive Director – Finance, Assets and Information Services

Audit Committee – 23rd March 2016

PUBLIC SECTOR INTERNAL AUDIT STANDARDS – EXTERNAL COMPLIANCE ASSESSMENT 2016

1. Purpose of Report

- 1.1 The purpose of this report is to provide the Audit Committee with details of the recent external assessment of the Internal Audit arrangements for BMBC against the Public Sector Internal Audit Standards (PSIAS).

2. Recommendations

2.1 It is recommended that the Audit Committee:-

- (i) Notes the content of the report.**

3. Background

- 3.1 The Public Sector Internal Audit Standards (PSIAS) are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), and are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 3.2 An external assessment must be conducted at least once every five years. The current assessment represents the first external assessment of Barnsley's Internal Audit arrangements against these standards.
- 3.3 As Sponsor to the assessment, the Executive Director (Finance, Assets and Information Services) arranged the assessment through the West and South Yorkshire Heads of Internal Audit Group, where it was agreed that one Authority would undertake a peer review assessment of a different Authority within the group. The assessment for Barnsley was undertaken by Audit Mangers from Bradford City Council during November 2015.

4. Outcomes

- 4.1 The assessment has identified no significant findings, and has confirmed that Barnsley's Internal Audit arrangements 'Generally Conforms' with the PSIAS standards and Code of Ethics. This rating is the top rating within the Standards, and means that Barnsley's Internal Audit arrangements regarding its Charter, Policies and Processes are judged to be in conformance with the Standards.
- 4.2 The Head of Internal Audit will provide further details of any improvement actions identified as part of this assessment as part of their presentation to the Audit Committee.

5. Background Information

Barnsley Internal Audit Service External Compliance Assessment with Public Sector Internal Audit Standards Report from Bradford City Council available for inspection.

Various Audit working papers available for inspection.

Contact Officers: Executive Director – Finance, Assets and Information Services

Telephone: 01226 77 3237

Date: 10th March 2016

PUBLIC SECTOR INTERNAL AUDIT STANDARDS – EXTERNAL COMPLIANCE ASSESSMENT 2016

Response to areas suggested for improvement

Report Ref.	Suggested Improvement	Internal Audit Comment	Action Proposed
5.2a	<p>Three Year Plan</p> <p>The current Internal Audit plan is for a year’s duration. If the level of resources available to internal audit reduces, consideration should be given to moving to a three year plan. This will assist in ensuring that there are no gaps in the coverage of critical areas of the Council’s financial systems and key service delivery risks.</p>	<p>Planning over a longer period is considered as a key part of the annual process.</p> <p>The extent of change within and around the Council, has meant that it is not practical to prepare a longer-term audit plan.</p> <p>In many respects, a 6-month plan can be more appropriate to reflect the pace of change, changes in priority, emerging issues and unplanned requests from senior management for advice, support and challenge.</p> <p>The planning process remains robust enough to ensure there are no gaps in the coverage of key risks and issues facing the Authority.</p>	<p>Longer-term audit planning will continue to be considered and implemented when there is greater stability within the Council and sector generally.</p>
5.2b	<p>Focus on High Priority Recommendations</p> <p>The service currently has three levels of recommendation, fundamental, significant and merits attention. Consideration should be given to focusing on those controls, which if audit work found to be weak, in either adequacy or application, would result in a fundamental or significant recommendation being made. This not only promotes internal audit resources being focused on the priority areas but also enables the organisation to focus on the key controls it needs to operate.</p>	<p>The nature of the classification of audit recommendations means that due attention is focussed on those with the greatest significance or priority and therefore higher risk areas.</p> <p>The follow-up process again focusses on the implementation of fundamental or significant recommendations.</p> <p>In many respects the ‘merits attention’ recommendations arise consequentially from the consideration of issues in the audit and</p>	<p>The current methodology and classification of recommendations is understood across the Council.</p> <p>The overall audit methodology will need to be reviewed should resources be reduced and a more thematic approach be required.</p> <p>This is currently being considered for the 2017/18 audit year.</p> <p>The Audit Committee will be kept informed regarding the development of any new</p>

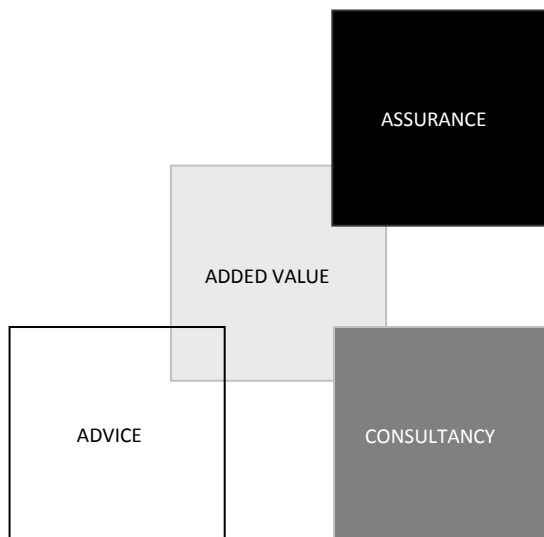
Report Ref.	Suggested Improvement	Internal Audit Comment	Action Proposed
		<p>represent those areas where some improvement in control processes or procedures would be beneficial.</p> <p>In some cases a number of 'merits attention' recommendations across a service or system can collectively result or contribute to a negative assurance opinion.</p>	<p>approaches in response to any reduction in resources.</p>
5.2c	<p>Audit Reports per Auditor</p> <p>A review of the number of audits issue indicates that Barnsley issues fewer reports compared with its West and South Yorkshire neighbours. This could be for a number of reasons including working styles and the definition of a report (for example other Councils may include grant certification audits as reports). However it would be beneficial for the Council's Head of Internal Audit to review the position to determine whether the reporting framework met Barnsley's Internal Audit requirements and those of the Council's and external client requirements. In some cases short briefing style reports can be a more effective deployment of Internal Audit resources focusing on remedies to internal control weaknesses.</p>	<p>Over the last few years audit work has reflected and responded to management requests for on the one hand more significant pieces of review work and on the other a demand for advice and support for initiatives, projects and strategy groups.</p> <p>Both aspects have had the impact of reducing the audit report : auditor ratio.</p> <p>This is not seen as much in the other clients, where there is a far higher ratio.</p> <p>All pieces of work contribute to the Head of Internal Audit's annual opinion and equally in the advice and information to management.</p> <p>It is a valid point regarding using a shorter report style to capture areas of activity where a formal report is not appropriate.</p>	<p>Whilst the relatively low ratio of reports : auditor is noted, there remains an effective deployment of audit resources targeted to support management.</p> <p>However, there is an opportunity to relate some aspects of currently 'un-reported' audit work in a form that would improve the ratio.</p> <p>This will be actioned in 2016/17.</p>
5.2d	<p>Risks linked to the Audit Plan</p> <p>The current Internal Audit plan reflects the financial risks of the authority and also links in</p>	<p>Agreed. This is an essential aspect of the control and governance framework and how Internal Audit supports, advices and challenges.</p>	<p>This is very much a constant area of focus for Internal Audit and therefore there is no specific action to take in this regard.</p>

Report Ref.	Suggested Improvement	Internal Audit Comment	Action Proposed
	<p>with the risk management processes of the authority. It is critical that the Council's strategic risk register remains relevant and reflects the environment the Council is working in, especially in the light of the changing availability of resources. This is a key responsibility of strategic management. It is Internal Audit's responsibility to ensure it reviews those strategic risks and the control environment supporting them. The Audit Committee, Strategic Directors, Section 151 Officer and Internal Audit Service need to continue ensuring that the Internal Audit resources are directed and balanced, so that Service delivery, organisational governance and financial administrative controls are reviewed and maintained.</p>	<p>Whilst there is always scope for improvement, the risk management arrangements within the Authority are well established, pragmatic and consequently can be relied upon by Internal Audit for the purposes of planning and review work. The Audit Committee has received a report on the audit planning methodology and will consider the draft Plan at its March meeting. This will demonstrate the linkages to risks across the Council.</p> <p>This aspect of focus will always remain a priority for Internal Audit in seeking to support the further embedding of effective and appropriate risk management arrangements across all parts of the Council.</p>	<p>The annual audit planning process focusses heavily on the risk registers and through the detailed consultation process with senior management, ensures audit activity remains aligned to risk.</p> <p>The Audit Committee will receive information throughout the year as part of Progress reports from Internal Audit about risk issues, as well as specific Strategic Risk register updates.</p>
5.2e	<p>Assurance Mechanisms</p> <p>In order to make the best use of Internal Audit resources it is important that attention is directed to significant/critical risks including process/system development and areas where Internal Audit's expertise is effective. Care should continue to be taken when preparing the Internal Audit plan that Internal Audit is not used to provide assurances outside its professional authority. The Authority could benefit from an assurance mapping process which clearly designates responsibility for critical risks and how assurances are achieved for those risks.</p>	<p>The audit planning process and the detailed consultation with senior managers seeks to ensure a risk-informed programme of work designed to provide assurances regarding the effectiveness of the control, risk and governance arrangements put in place and managed by management.</p> <p>All audit activities within the plan are structured on that basis and therefore do not fall outside of the services authority or competence.</p> <p>It has been acknowledged for some time by senior management that the development of a corporate assurance map would be of use.</p>	<p>Internal Audit has and will continue to support management in the development of an assurance map for the Council. There are specific days allocated to this within the 2016/17 plan.</p> <p>No specific action is required of Internal Audit in this regard beyond that already planned.</p>

Report Ref.	Suggested Improvement	Internal Audit Comment	Action Proposed
		<p>Work in this area had developed over the last few months and it is hoped that such an assurance map will be in place during 2016/17. Internal Audit have and will play a key role in supporting, implementing and subsequently monitoring the assurance map.</p>	
5.2f	<p>Adults</p> <p>A review of the Internal Audit Plan for 2015/16 shows that 65 Internal Audit days were allocated to the Communities Department which incorporates Adults Services. The days allocated to People and Place were 175 days and 112 respectively. Given that Adults services is one of the most critical resource demanding areas of Council activity, consideration should be given to whether the resources allocated to Adults, is sufficient and reflects the current level of risk.</p>	<p>Due to how the functions and services of the Council are structured, a number of areas of work supporting the 'Adults' agenda were undertaken outside of the Communities Directorate, i.e. within Finance and the People Directorate e.g., DOLS and personal budgets.</p> <p>The '65' days therefore presents a slightly false position.</p> <p>However, the point is acknowledged and the 2016/17 planning process and had a key focus on this general area.</p>	<p>The 2016/17 audit plan has considered the area and with management and includes an appropriate programme of work.</p> <p>The Audit Committee will receive information about this work through the periodic Progress reports.</p>
5.2g	<p>Delivery of Training</p> <p>Whilst not a specific requirement of PSIAS and the responsibility could sit within other areas of the organisation, it was noted that the Internal Audit Service had not delivered any formal training in the form of courses to other areas of the organisation, or service managers.</p> <p>The provision of training by Internal Audit gives the Service exposure to the rest of the organisation and allows it to sell itself to service</p>	<p>This is somewhat an anomaly of 2015/16. In most years Internal Audit undertakes or contributes to training of some kind.</p> <p>Training activity has in the past been in areas such as anti-fraud and corruption, contracts and procurement, general governance and audit committee effectiveness.</p> <p>The Internal Audit service also contributes to the maintenance and development of the Council's on-line training facility (BOLD).</p>	<p>Some provision has been made in the 2016/17 Plan for specific training for Berneslai Homes and a number of the external clients.</p> <p>Training has generally been requested by management and accommodated where possible by Internal Audit during the year. Consequently, and again for 2016/17, any such requests will be considered and resourced from contingency days. Again, the Audit Committee will receive information about such activity in the Progress reports.</p>

Report Ref.	Suggested Improvement	Internal Audit Comment	Action Proposed
	managers and also be pro active in delivering improvements to the governance arrangements of the Council. Consideration should be given to the delivery of such training in the future.	More focus is attached corporately to the on-line method of training, awareness, advice and guidance.	

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Barnsley Internal Audit Service External Compliance Assessment with Public Sector Internal Audit Standards

15 March 2016

ASSURANCE ■ CONSULTANCY ■ ADDED
VALUE ■ ADVICE □

Mark St Romaine IPFA
Michael Parkinson FCCA

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Circulation

Frances Foster	Section 151 Officer Barnsley Council	For Information and Discussion
Robert Winter	Head of Internal Audit	For Information and Discussion
Neil Copley	Service Director, Finance	For Information and Discussion

1 Introduction

- 1.1** This report is an external assessment of Barnsley's Internal Audit Service. The assessment has been undertaken by professional Auditors from Bradford Council's Internal Audit Service. The assessment has taken place to ensure compliance with statutory regulations and Public Sector Internal Audit Standards (PSIAS) which requires a review of the Internal Audit provider every five years.
- 1.2** The results of the review will be reported to Barnsley's Audit Committee on 23rd March 2016. The Committee approved the terms of the external assessment at their meeting of the 5th November 2014. The external assessment builds on the internal assessments which are reported regularly to the Audit Committee in the Service's Annual Internal Audit Reports.
- 1.3** Barnsley's Internal Audit Service provides the Internal Audit function for a number of South Yorkshire Joint Bodies and other organisations. In addition to Barnsley Council the purpose of the assessment is to provide assurance to these organisations, that Barnsley Internal Audit Service is professionally competent to meet their internal audit needs as well.

2 Executive Summary

The focus of the assessment was two-fold; primarily it was to review whether Barnsley's Service was PSIAS compliant. The secondary purpose was to identify possible areas for service improvement.

2.1 PSIAS Compliant

It is our overall opinion that Barnsley Council Internal Audit Services "Generally Conforms" to the Public Sector Internal Audit Standards and Code of Ethics.

The guidance suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally Conforms" is the top rating and means that an IA activity has a charter, policies and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

The only area where the service had not been compliant with PSIAS was the need for an external review which this report resolves. This enables the Audit Committee to have confidence that the annual opinion of the Head of Internal Audit is supported by a professional and competent service and is evidenced based.

2.2 Service Improvement Opportunities

As part of the assessment the review looked at the current practices adopted by the Barnsley Internal Audit Service. The report identifies areas that the Audit Committee, Financial Management and the Internal Audit Service may wish to consider in terms of the future development of the service. Any developments need to be considered in the context of the available resources both to the Internal Audit Service and to the Council as a whole. It needs to be recognised that the approach taken is the responsibility and decision of the Audit Committee, the Section 151 Officer, the Head of Internal Audit and other key council officers and the application of their professional judgement in accordance with Barnsley Council's strategic objectives.

3 Purpose and Scope of the Report

Internal Audit is a statutory function for a local authority. This section of the report identifies those statutory responsibilities, how this review complies with the statutory responsibilities and the organisations this review covers.

3.1(i) Accounts and Audit regulations 2015

Under the Accounts and Audit regulations 2015 5.—(1)

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

3.1 (ii) Public Sector Internal Audit Standards (PSIAS)

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and

- establish the basis for the evaluation of internal audit performance and to drive
- improvement planning.

The purpose of the review is to ensure that Internal Audit conforms with the PSIAS. This includes the requirements for a quality assurance and improvement programme which must include both internal and external assessments.

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive (HoIA) must discuss with the board: the form of external assessments, the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence is demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience

3.1(iii) Barnsley Internal Audit Service Charter and Strategy

Barnsley Internal Audit Service's Internal Audit Charter and Strategy 2015/16 was renewed in March 2015. The Charter sets out the nature, objectives, outcomes and responsibility of the Internal Audit Service along with the scope of its activities within its client organisations. The strategy sets out how the charter will be delivered.

The strategy includes a statement on the need for an external assessment which requires an independent external review to be undertaken at least every 5 years. The Audit Committee and the Director of Finance, Assets and Information Services will approve the terms of reference for this assessment which is timetabled for 2015. The external assessment process will also be utilised by Internal Audit's external clients to avoid any duplication or additional cost.

3.2 External Clients

In addition to Barnsley Council the Internal Audit Service has a responsibility for the internal audit of the following organisations

South Yorkshire Police Chief Constable
South Yorkshire Police and Crime Commissioner

South Yorkshire Fire and Rescue Authority
Sheffield City Region Combined Authority
South Yorkshire Passenger Transport Executive
South Yorkshire Pensions Authority
Berneslai Homes

Of the sample of four audits in total, two audits were chosen from the external clients. These were an audit for Berneslai Homes and one for the South Yorkshire Fire and Rescue Authority. An interview was also held with the Finance Director of the South Yorkshire Fire and Rescue Service. These evidenced that the same procedures were adopted for these organisations and were PSIAS compliant.

3.3 External Assessors Qualifications

The review has been undertaken by Mark St Romaine and Michael Parkinson who both work for the Bradford Council Internal Audit Team. Mark St Romaine is currently the Joint Head of Internal Audit, Insurance, Information Governance, and Risk at Bradford Council and Service Manager Internal Audit and Risk at Wakefield Council. He has been Head of Internal audit at Bradford since 2012. Previous to that he was a Senior Auditor/ Audit Manager at Bradford Council between 1992 and 1997. He held various Finance Manager positions for Bradford Council between 1997 and 2012. He qualified with the Chartered Institute of Public Finance and Accountancy in 1992.

Michael Parkinson is an Audit Manager with Bradford Council. He has been an Audit Manager since 2002 and has over 25 years internal audit experience from working within public and private sector organisations. He qualified with the Association of Certified Accountants in 1997.

Both Assessors have significant knowledge on local government finance and local government, as well as specific understanding of Internal Audit issues.

4. External Assessment Methodology

4.1 The methodology for the external assessment was agreed by the West & South Yorkshire Heads of Internal Audit Group. The terms of reference for the External Assessment Peer Review are detailed in Appendix A. The review required a Document Review, Structured Interviews a review of audit working papers and a review of the PSIAS checklist. Appendix B details the interviews held and Appendix C details the documents and the Audit working papers reviewed. Appendix D identifies the audits examined.

Barnsley Internal Audit Service has undertaken its own compliance test against the PSIAS. This has been reviewed. The evidence identified in

the external assessment has confirmed the results in Barnsley Internal Audit Service's own assessment.

4.2 This report has been prepared from the findings of the review. In accordance with the assessment criteria it has been considered by the Council's Section 151 Officer, the Head of Internal Audit and the Service Director Finance. The purpose of this is to ensure the factual accuracy of the report. The report will now be considered at the meeting of the Audit Committee.

4.3 This assessment has reviewed the working practices of Barnsley Internal Audit including an interview of an external client and a review of two audit files for separate external clients. As an external assessment this review can also be considered as incorporating an external assessment on behalf of the other audit committees that are supported by Barnsley Internal Audit Service.

5. Findings

5.1 Public Sector Internal Audit Standards Compliance

5.1a The Standards

PSIAS are broken down into four areas, the definition of internal auditing the code of ethics for auditors, the attribute standards which details the organisational and professional framework that Internal Audit operates within and the performance standards, which details how Internal Audit should be managed and audit engagements completed. This assessment has reviewed Barnsley Internal Audit Service against each of the areas.

5.1a.i Definition of Internal Auditing

Internal Audit Activity is independent and objective being a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation. Barnsley Internal Audit Service complies with this definition.

5.1a.ii Code of Ethics

The standards require the Internal Audit service to have integrity, be objective and maintain confidentiality. From the external assessment and the interviews with key individuals undertaken Barnsley Internal Audit Service abides by the codes of ethics of the Standard.

5.1a.iii Attribute Standards

The attribute standards include assessing the purpose, authority and responsibility of Internal Audit, its organisational independence, professionalism and how it attains quality assurance. This has been identified by reviewing the documentation that supports the operation of Barnsley Internal Audit Services. This is supported by the interviews with key staff and shows that the Barnsley Internal Audit Services is PSIAS compliant in this area.

5.1a.iv Performance Standards

The performance standards include assessing the: management of internal activity; the nature of work performed; engagement planning, performance and communication of results; monitoring progress of management actions to risks highlighted in audit work; and communication to senior management of any risks that are accepted that may not be appropriate for the Council.

From the external assessment and interviews held with key individuals, Barnsley Internal Audit Service was found to be PSIAS compliant in this area, although there are some potential areas for improvement which are raised in 5.2.

The external assessment of the performance standards particularly focused on the review of a sample of audit reports and supporting documentation, which assessed the audit reports as being professionally written, accurately reflecting the findings of the review, with the conclusion and audit opinion reached being consistent with the findings from the review.

Relevant recommendations were made in respect of control weaknesses identified, adequacy or application, which were appropriately classified. The recommendation classifications were challenged by the reviewer as appropriate, with the auditor and manager of the review providing sound reasoning, demonstrating the application of professional judgement for selecting the relevant recommendation classification.

A clear audit trail between the audit working papers and the audit report was evident. In one audit a control issue stated in the audit working papers that did not appear in the final audit report was queried with the auditor and/or manager. A clear explanation and rationale, which was agreed with the manager, was provided for the control issue not appearing in the final audit report.

The Internal Audit Service's planning and reporting cycle were also found to be effective and robust.

5.1b Level of Resources

The level of resources available to internal Audit is a decision for the Audit Committee, the Council's Section 151 officer and the Head of Internal Audit. The external assessment view on the level of resources supporting both Barnsley Council and the Service's External Clients is satisfactory. Whilst there is the margin for a reduced level of resources to be deployed if circumstances were appropriate any substantial reduction in resources would bring the issue of a minimum level of audit into consideration.

The service is also responsible for the delivery of Internal Audit to a range of other organisations. If the service was to lose any of these clients, or the Council was to withdraw from any significant service areas then the resource position of the service would need to be reappraised.

5.1c Training

In 2014/15, 14 Internal Audit staff successfully completed the professional training programme provided by the Institute of Internal Auditors, the Certificate in Internal Audit and Risk. The Head of Internal Audit and the supporting Audit Managers have the relevant qualifications and experience to manage and support the service. The current levels of qualification held, experience and knowledge enable the service to meet PSIAS requirements. This was evidenced by the quality of the internal audit work reviewed.

5.2 Service Improvement Opportunities

5.2a Three Year Plan

The current Internal Audit plan is for a year's duration. If the level of resources available to internal audit reduces, consideration should be given to moving to a three year plan. This will assist in ensuring that there are no gaps in the coverage of critical areas of the Council's financial systems and key service delivery risks.

5.2b Focus on High Priority Recommendations

The service currently has three levels of recommendation, fundamental, significant and merits attention. Consideration should be given to focusing on those controls, which if audit work found to be weak, in either adequacy or application, would result in a fundamental or significant recommendation being made. This not only promotes internal audit resources being focused on the priority areas but also enables the organisation to focus on the key controls it needs to operate.

5.2c Audit Reports per Auditor

A review of the number of audits issue indicates that Barnsley issues fewer reports compared with its West and South Yorkshire neighbours. This could be for a number of reasons including working styles and the definition of a report (for example other Councils may include grant certification audits as reports). However it would be beneficial for the Council's Head of Internal Audit to review the position to determine whether the reporting framework met Barnsley's Internal Audit requirements and those of the Council's and external client requirements. In some cases short briefing style reports can be a more effective deployment of Internal Audit resources focusing on remedies to internal control weaknesses.

5.2d Risks linked to the Audit Plan

The current Internal Audit plan reflects the financial risks of the authority and also links in with the risk management processes of the authority. It is critical that the Council's strategic risk register remains relevant and reflects the environment the Council is working in, especially in the light of the changing availability of resources. This is a key responsibility of strategic management. It is Internal Audit's responsibility to ensure it reviews those strategic risks and the control environment supporting them. The Audit Committee, Strategic Directors, Section 151 Officer and Internal Audit Service need to continue ensuring that the Internal Audit resources are directed and balanced, so that Service delivery, organisational governance and financial administrative controls are reviewed and maintained.

5.2e Assurance Mechanisms

In order to make the best use of Internal Audit resources it is important that attention is directed to significant/critical risks including process/system development and areas where Internal Audit's expertise is effective. Care should continue to be taken when preparing the Internal Audit plan that Internal Audit is not used to provide assurances outside its professional authority. The Authority could benefit from an assurance mapping process which clearly designates responsibility for critical risks and how assurances are achieved for those risks.

5.2f Adults

A review of the Internal Audit Plan for 2015/16 shows that 65 Internal Audit days were allocated to the Communities Department which incorporates Adults Services. The days allocated to People and Place

were 175 days and 112 respectively. Given that Adults services is one of the most critical resource demanding areas of Council activity, consideration should be given to whether the resources allocated to Adults, is sufficient and reflects the current level of risk.

5.2g Delivery of Training

Whilst not a specific requirement of PSIAS and the responsibility could sit within other areas of the organisation, it was noted that the Internal Audit Service had not delivered any formal training in the form of courses to other areas of the organisation, or service managers.

The provision of training by Internal Audit gives the Service exposure to the rest of the organisation and allows it to sell itself to service managers and also be pro active in delivering improvements to the governance arrangements of the Council. Consideration should be given to the delivery of such training in the future.

6. Recommendations

- 6.1 That the Audit Committee notes the report and approves the findings of the external assessment that Barnsley Internal Audit Service is PSIAS compliant.
- 6.2 That the Audit Committee considers the service improvement opportunities (5.2a to 5.2g) and discuss with the relevant management through Internal Audit's planning and reporting cycle whether they should be incorporated into Internal Audit's activities in the future.

7. Appendices

- Appendix A: West & South Yorkshire Heads of Internal Audit Group External Assessment – Peer Review Terms of Reference
- Appendix B List of Staff Interviews
- Appendix C Documents Reviewed as part of the External Assessment
- Appendix D Internal Audits Reviewed as Part of the External Assessment

Appendix A

West & South Yorkshire Heads of Internal Audit Group

External Assessment – Peer Review

Terms of Reference

Purpose of the Paper

At the meeting of the West and South Yorkshire HoIA Group held on the 20th November 2013 it was agreed that member authorities should begin to formalise the arrangements for their external assessments and develop a clear basis for the approach to be taken to undertaking such assessments.

It was agreed at this meeting that the external assessment process should be undertaken as a peer review whereby one Authority would undertake a peer assessment of a different Authority within the group. This approach forms the basis of this paper which provides background information regarding the requirements of the Public Sector Internal Audit Standards (PSIAS) in so far as they apply to external assessments along with details of the process to be followed by members of the group.

Background Information

Members of the Peer Group:

West Yorkshire: Wakefield Metropolitan District Council; Bradford City Council; Calderdale Council; Kirklees Metropolitan Council

South Yorkshire: Rotherham Metropolitan Borough Council; Doncaster Metropolitan Borough Council; Barnsley Metropolitan Borough Council

NB: Sheffield and Leeds City Council intend to undertake a similar Peer Review but alongside other Core Cities.

External Assessments:

The purpose of the external assessment is to help improve delivery of the audit service to an organisation. The assessment should be a supportive process that identifies opportunities for development which ultimately helps to enhance the value of the audit function to your Authority.

External assessments must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. The HoIA should involve their Audit Committee and Section 151 Officer in determining the frequency,

timing and scope of their external assessments as well as the selection of who will conduct the review and terms of reference for the review.

The two possible approaches to external assessments include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- Possess a recognised professional qualification
- Have appropriate experience of internal audit - at least five years at manager level within the public sector / local government
- Have detailed knowledge of leading practices in internal audit
- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The HoIA should discuss the proposed form of the external assessment with their Line Manager (where relevant) and Audit Committee or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Board (this is usually the Audit Committee) regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The HoIA should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Members of the West and South Yorkshire HoIA Group have elected to adopt the latter of the 2 approaches with another member of the West and South Yorkshire Internal Group undertaking the validation. The key benefit to this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment which takes around 8 days at a minimum cost of £10K. They also provide a validated assessment, similar to the approach agreed by the West and South Yorkshire Internal Audit Group, which takes 6-8 working days and costs between £6K and £9K. Reviews at the higher end of the scale would include interviews with the senior team and the Audit Committee chair.

There are obvious financial savings to Members of the peer group by adopting the agreed approach as outlined within this paper. In addition, such an approach is in keeping with the promotion of collaborative working arrangements.

One of the risks identified by the group in respect of this form of peer review approach relates to the potential negative impact on professional relationships in the event of adverse findings. The terms of reference outlined within this paper would aim to mitigate against such a risk / issue. The CIIA have been consulted in terms of this form of peer assessment and are supportive of the approach. At the CIPFA audit update meeting held during November 2013, such an approach was cited as a good example of best practice in obtaining best value. In addition, there have been examples of groups similar to the South and West Yorkshire Group proposing to adopt a similar approach i.e. Greater London Authorities, South West Audit Group, Core Cities.

In adopting this approach HoIA and / or Section 151 Officer should be mindful that their Audit Committees and Section 151 Officer may require an external version of the assessment which may be perceived as providing a more robust and independent form of challenge.

Independence and Objectivity

Prior to the commencement of the assessments taking place all parties should agree the programme of peer reviews and an appropriate timetable. It is important to ensure the independence of the Auditor undertaking the peer assessment. Any known or perceived conflicts of interest should therefore be disclosed. It should be acknowledged at the outset that all West and South Yorkshire Internal Audit services have some knowledge of each other.

Agreeing the Assessment Process

West and South Yorkshire colleagues should agree a programme of assessments taking into account the requirement noted above regarding independence and objectivity. In addition, colleagues should agree the number of days to be assigned to undertaking assessments, along with the sponsor for each review.

The Assessment Process

Completion of the Checklist:

Each HoIA must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment.

Pre Assessment Phase:

- Confirm the terms of reference for the review, timescales and dates for the review.

- Obtain background information in order to obtain an appreciation of the function. This should include the IA Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives).
- Obtain details of responsibilities, resources, structure and activity.
- Obtain details of any external client organisations e.g. YPO, Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required.
- Obtain the completed self assessment which has been sign posted to the supporting evidence.
- Obtain evidence of how quality is maintained and how performance is measured and reported.

Assessment Phase:

- Review of documentation in support of the standards / checklist.
- Examine a sample of audit engagements according to the PSIAS and procedures.
- Interview key staff to confirm audit procedures and process.
- Undertake an exit meeting with the HoIA.

Post Assessment Phase:

The review should conclude with a detailed report providing an opinion on the Internal Audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards highlighting any areas of partial conformance or areas which do not conform along with recommendations for improvement, where appropriate.

Reporting Phase:

- Discussion of the draft report with the HoIA and Sponsor.
- Issue of final report and agreed actions to the HoIA and Sponsor to confirm accuracy.
- Issue final report to the HoIA and Sponsor. HoIA / Sponsor to issue final report to their Audit Committee which includes an action plan and implementation dates.

In order for each Authority to obtain maximum benefit from the peer assessment approach each HoIA should share a synopsis of their respective outputs / report with members of the West and South Yorkshire HoIA group.

It is envisaged that each phase of the assessment process should take no longer than 1 day i.e. 4 days in total.

Appendix B

List of Staff Interviews

Name	Position	Organisation
Frances Foster	Section 151 Officer	Barnsley Council
Neil Copley	Service Director - Finance	Barnsley Council
Rob Winter	Head of Internal Audit	Barnsley Council
Councillor Richardson	Chair of Audit Committee	Barnsley Council
Beverley Sandy	Director of Finance and Resources	South Yorkshire Fire and Rescue Service
John Cornett	External Auditor	KPMG
Linda Wild	Audit Manager	KPMG
Wendy Lowder	Acting Executive Director Communities	Barnsley Council
Adrian Hunt	Risk and Governance Manager	Barnsley Council

Appendix C

Documents Reviewed as part of the External Assessment

Barnsley Internal Audit Checklist for Conformance with the PSIAS and the Application Note May 2015

Barnsley Council Risk Management Framework Review 20th May 2015

Risk Management Process August 2014

Internal Audit Risk Based Planning Methodology Barnsley Internal Audit

Future Council Strategy 2014-17 Barnsley Metropolitan Council 2014-2017

Internal Audit Annual Report 2014/15 Audit Committee 10th June 2015

Annual Governance Review Process 2014/15 25th March 2015

BMBC Strategic Risk Register as at February 2015

Internal Audit Plan 2015/16 Audit Committee – 25th March 2015

Internal Audit Quarterly Report 2015/16, Quarter Ended 30 June 2015 Audit Committee 22nd July Internal Audit Charter and Strategy 2015/16 2015

Annual Review of the Effectiveness of Internal Audit Committee 10th June 2015

Public Sector Internal Audit Standards – Proposal for undertaking an external Assessment Audit Committee – 5th November 2014

Barnsley MBC Internal Audit Services Internal Audit Charter and Strategy 2015/16

Appendix D

Internal Audits Reviewed as Part of The External Assessment

Barnsley Council

Safeguarding Process – Deprivation of Liberties Internal Audit Report Date of Issue 21st October 2015

Area Council Governance Arrangements Internal Audit Report Date of Issue 14th October 2015

South Yorkshire Fire and Rescue Authority

Stronger Safer Community Reserve Internal Audit Report date of Issue 24th June 2015

Barneslai Homes

Recruitment and Selection Internal Audit Report Date of Issue 30th September 2015

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Item 7

Report of the Executive Director of Finance, Assets and Information and the Executive Director, Legal and Governance

AUDIT COMMITTEE – 23rd March 2016

REVIEW OF THE AUDIT COMMITTEE WORKSHOP AND DRAFT ACTION PLAN

1. Purpose of the Report

1.1 This report presents the updated action plan as requested by the Committee at its meeting on 20th January.

2. Recommendations

2.1 The Audit Committee is recommended to:-

- i. consider and agree the action plan; and
- ii. receive regular reports on progress.

3. Introduction and Background

3.1 It is accepted good practice that audit committees review their terms of reference regularly (usually annually), including a self-assessment on effectiveness, a skills assessment and a general review of working arrangements.

3.2 The Audit Committee has seen a significant change in membership over the last 12 months and it was therefore considered appropriate to undertake a more fundamental review of arrangements. To facilitate this review a workshop was held on 4th November 2015.

3.3 The outcomes from the workshop were initially presented in an action plan to the meeting on 20th January. The attached action / development plan provides an update and timescales.

4. Action / Development Plan

4.1 By way of reminder, the key areas discussed at the Workshop that have been incorporated into the proposed action / development plan.

4.2 The key areas are:

- a. Complete the Committee effectiveness self-assessment utilising the CIPFA questionnaire and identify any areas for improvement or development

- b. Complete the individual skills and experience self-assessment utilising the CIPFA guidance and identify any personal training and development requirements
 - c. Consider options for changes to the terms of reference of the Committee
 - d. Improve the profile and status of the Committee within the Council
 - e. Invite the Chief Executive and other SMT members to attend the Committee to reinforce the importance of the Committee
 - f. Utilise the strategic risk register and periodically invite 'risk owners' to present details of how they are managing the risks they are responsible for
 - g. Change the focus of Committee activity to ensure assurance is obtained and develop / improve the recommendations to prompt a opinion or judgement on the assurance provided
 - h. Consider establishing 'champions' within the Committee to match the key themes of the terms of reference, e.g. financial management, internal audit, risk management, information governance
 - i. Obtain more information, training or development in key areas of Council or general local government issues, e.g. Better Care Fund, devolution, other partnership activities
 - j. Develop opportunities for Committee members to obtain practical experience in the operational areas covering the terms of reference ('walk the floor')
 - k. Improve the quality of reports to the Committee to focus on key issues and particularly where issues have slipped such as audit recommendations, incorporating inviting senior managers to the Committee to account for any missed timescales etc.
 - l. Review the meeting structure to include time and space for in-depth review work and development
 - m. Propose change of name for the Committee to the Governance Assurance Committee
- 4.3 Although not all members of the Committee have as yet returned the questionnaires, the ones received provide some key messages. In respect of the assessment of the Audit Committee in terms of its organisation and constitution (4 returned questionnaires), the key issue was the evaluation process, which is substantially being addressed as part of this process. In addition there is clearly scope to better formalise the Committee's arrangements; again a feature of the current process. The assessment of the Committee's effectiveness (4 returned questionnaires) there was a theme of needing to delve a little deeper into key areas, utilise the experience of other audit committees and consider the Council's overall assurance framework. These issues are likely to be addressed as the Committee's profile and status are improved.
- 4.4 With regards the self-assessment of members' personal knowledge and skills, of the 5 returns received the following areas have been highlighted as those where members have requested further training, information or support:

- CIPFA/SOLACE Good Governance Framework
- General BMBC awareness
- Treasury Management
- Financial Statements
- Appointment of External Auditors
- Project and Programme management
- Financial management

A programme of 'training' activity will be developed to accommodate these requirements.

- 4.4 The Committee are asked therefore to consider the actions and timescales.
- 4.5 In addition to the areas above and the actions, it will also be necessary to consider how best to support the Committee within limited officer resources. This aspect will also be kept under review and any issues brought to the Committee's attention.
5. **Appendix** – Updated Action / Development plan
6. **Background Papers** – papers previously provided for the Workshop on 4th November 2015.

Contact Officers: ED Finance, Assets and Information
ED Legal and Governance
Telephone No: 01226 773102 / 01226 773002
Date: 14th March 2016

Action / Development Plan

Ref.	Action / Area for Development	Activity	Lead Officer	Implementation Date
a	Complete the Committee effectiveness self-assessment utilising the CIPFA questionnaire and identify any areas for improvement or development.	Each AC member to complete the Committee Self-Assessment. Assessments will be collated with a report presented to a future AC meeting.	ED Legal and Governance	Still awaiting a few returns. Will collate for next meeting.
b	Complete the individual skills and experience self-assessment utilising the CIPFA guidance and identify any personal training and development requirements.	Each AC member to complete the individual skills and experience self-assessment. Assessments will be collated with a report presented to a future AC meeting.	ED Legal and Governance	Still awaiting a few returns. Will collate for next meeting.
c	Consider options for changes to the terms of reference of the Committee.	In the light of the CIPGA guidance provided to AC members, consider where the ToR require changing.	ED Legal and Governance	
d	Improve the profile and status of the Committee within the Council.	Audit and Governance issues to be included on the quarterly SMT meeting focussing on performance issues Issues arising from future work programmes to be circulated/discussed at BLT	ED Finance, Assets and Information	ongoing
e	Invite the Chief Executive and other SMT members to attend the Committee to reinforce the importance of the Committee.	AC to consider the future work programme and identify with ED Finance appropriate members of SMT to attend and add value.	ED Finance, Assets and Information	ongoing
f	Utilise the strategic risk register and periodically invite 'risk owners' to present details of how they are managing the risks they are responsible for.	AC to select one or two risk in the SRR and for the relevant Risk Owner to attend to report/present how the risk has been identified, assessed, mitigated and the current status of outstanding actions.	ED Finance, Assets and Information	To be scheduled for future meeting following update of SSR
g	Change the focus of Committee activity to ensure assurance is obtained and develop / improve the recommendations to prompt a opinion or judgement on the assurance provided.	For each report author to consider the extent and degree of assurance being provided and ensuring that any recommendations are suitably phrased to prompt the Committee to express an assurance judgement.	ED Legal and Governance / ED Finance, Assets and Information.	ongoing
h	Consider establishing 'champions' within the Committee to match the key themes of the terms of reference, e.g. financial	Identify the key areas within the ToR and allocate an AC member to take a lead on	ED Legal and Governance / ED Finance, Assets	For New Municipal year

Ref.	Action / Area for Development	Activity	Lead Officer	Implementation Date
	management, internal audit, risk management, information governance.	behalf of the Committee. Specific senior lead officers to be identified to act as contacts to facilitate the member role.	and Information.	
i	Obtain more information, training or development in key areas of Council or general local government issues, e.g. Better Care Fund, devolution, other partnership activities.	Utilise the results of the skills and experience self-assessments to identify training and development requirements. Prepare a programme of sessions or identify sources of information to support AC development.	ED Legal and Governance	For New Municipal year
j	Develop opportunities for Committee members to obtain practical experience in the operational areas covering the terms of reference ('walk the floor').	Linked to the 'champion' roles and any changes to the ToR, identify lead senior officers to arrange time for AC members to get practical experience of relevant operational areas.	ED Finance, Assets and Information	For New Municipal year
k	Improve the quality of reports to the Committee to focus on key issues and particularly where issues have slipped such as audit recommendations, incorporating inviting senior managers to the Committee to account for any missed timescales etc.	For each report author to consider the key issues and messages necessary to provide assurance and/or information. AC to invite relevant key officers to explain any slippage in the implementation of recommendation etc.	ED Legal and Governance / ED Finance, Assets and Information.	Ongoing
L	Review the meeting structure to include time and space for in-depth review work and development.	Identify one or two of the scheduled meeting dates and designate them as training and development sessions or as dedicated time to look at an issue or area in more detail.	ED Legal and Governance	For New Municipal year
m	Propose change of name for the Committee to the Governance Assurance Committee.	Formal report required to Council in May 2016.	ED Legal and Governance	May 2016
n.	Consider the officer requirements and resources to support the Audit Committee.	Lead officers to assess the revised support arrangements necessary for the AC.	ED Legal and Governance / ED Finance, Assets and Information.	

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External audit progress report and technical update

Item 8

Barnsley MBC

March 2016

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

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Progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue main deliverables, including reports and conclusions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

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Area of responsibility	Commentary
Audit Planning	We have completed our risk based audit planning for the 2015/16 audit of your financial statements and VFM conclusion. We have agreed the Audit Plan with management it is being presented to the Audit Committee as part of today's agenda.
Financial statements	Our interim audit on-site visit commenced in February 2016. We are currently reviewing your VFM arrangements. Once this is complete, we will report any findings from the interim visit to the Audit Committee. Our audit of your draft financial statements will take place during July/August 2016 and we will issue our opinion on your financial statements by 30 September 2016
Value for Money	Our work on the VFM conclusion has commenced as part of our interim audit and will conclude during our final accounts visit in July/August 2016. We will issue our VFM conclusion by 30 September 2016.
Certification of claims and returns	The Housing Benefit & Council Tax Benefit Claim is the only grant remaining under the PSAA Ltd regime. We will discuss the timing of this audit with officers and we will report before the deadline of 30 November 2016. We will discuss the certification of any grants outside of the PSAA Ltd regime with officers in due course.
Other work	Our work in relation to a letter from a member of the public is ongoing. Any additional fee in relation to this will be agreed with officers and reported to the Audit Committee.



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KPMG resources

Area	Comments
<p data-bbox="64 315 250 472">Local Government Technical Update – February 2016</p> <p data-bbox="58 611 105 768" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 98</p>	<p data-bbox="292 315 1991 372">We have completed our series of local government accounts workshops for key members of your finance team. The workshops were focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2015/16 close down and statement of accounts.</p> <p data-bbox="292 394 1980 422">The workshops were led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh.</p> <p data-bbox="292 444 551 472">The agenda included:</p> <ul data-bbox="292 494 830 658" style="list-style-type: none"> <li data-bbox="292 494 551 522">■ Review of 2014/15; <li data-bbox="292 536 830 565">■ Key Issues and developments for 2015/16; <li data-bbox="292 579 706 608">■ Longer term developments; and <li data-bbox="292 622 675 651">■ Tax and Pensions specialists. <p data-bbox="292 679 685 708">The events took place as follows:</p> <ul data-bbox="292 729 841 993" style="list-style-type: none"> <li data-bbox="292 729 623 758">■ Leeds – 4 February 2016 <li data-bbox="292 772 665 801">■ Leicester – 5 February 2016 <li data-bbox="292 815 644 843">■ Preston – 8 February 2016 <li data-bbox="292 858 706 886">■ Birmingham – 12 February 2016 <li data-bbox="292 901 841 929">■ London (Canary Wharf) – 22 February 2016 <li data-bbox="292 943 644 972">■ Bristol – 24 February 2016 <p data-bbox="292 1008 1452 1036">For more information, please contact Linda Wild, tel: 0113 231 3512, email: linda.wild@kpmg.co.uk.</p>



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Technical update

Area	Level of Impact	Comments	KPMG perspective
<p>Accounts and Audit Regulations 2015 – Narrative statements</p> <p>Page 100</p>	<p>● Low</p>	<p>Authorities will need to be aware that the <i>Accounts and Audit Regulations 2015</i> require local authorities to produce and publish a narrative statement. Section 8 of the Regulations, which apply first from the 2015/16 financial year, states:</p> <p><i>Narrative statements</i></p> <ol style="list-style-type: none"> 1) A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year. 2) A narrative statement prepared under paragraph (1) must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year. <p>Authorities will need to publish the narrative statement along with the financial statements. The narrative statement does not form part of the financial statements and is therefore not subject to audit. As part of their audit work however, auditors will need to review the statement for consistency with their knowledge.</p> <p>The narrative statement replaces the explanatory foreword and will need to be prepared in accordance with CIPFA/LASAAC's <i>Code of Practice on Local Authority Accounting</i> (the accounting code). The 2016/17 accounting code will contain high level principles for authorities to follow when preparing their narrative statements. The principles set out in the accounting code will also be relevant to 2015/16 and we understand that CIPFA/LASAAC is likely to publish an update to the 2015/16 accounting code to clarify this.</p>	<p><i>The Committee may wish to seek assurances that their authorities have arrangements in place to meet the new requirements</i></p>
<p>Accounts and Audit Regulations 2015 – Exercise of public rights</p>	<p>● Low</p>	<p>Authorities will be aware that the Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015/16 onwards.</p> <p>Paragraph 9(1) of the Regulations requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced.</p> <p>Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place <i>until after the conclusion of the period for the exercise of public rights</i>.</p> <p>As the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.</p>	<p><i>The Committee may wish to seek assurances that the necessary arrangements are in place for their Authority.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Consultation on 2016/17 audit work programme and scales of fees</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 101</p>	<p style="text-align: center;">● Low</p>	<p>Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/17 proposed work programme and scales of fees.</p> <p>The consultation sets out the work that auditors will undertake at principal audited bodies for 2016/17, with the associated scales of fees. The consultation documents, and list of individual proposed scale fees, are available on the PSAA website at www.psa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/</p> <p>There are no planned changes to the overall work programme for 2016/17. It is proposed that scale fees are set at the same level as the scale fees applicable for 2015/16, set by the Audit Commission before it closed in March 2015. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.</p> <p>Following completion of the Audit Commission's 2014/15 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings.</p> <p>PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established shortly.</p> <p>The work that auditors will carry out on the 2016/17 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.</p> <p>The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.</p>	<p><i>The Committee may wish to seek assurances on how their Authority have responded to the consultation.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals</p>	<p>● Low</p>	<p>Wave 1 City Deals encouraged cities to develop capacity to manage devolved funding and increased responsibility. The report finds it is too early to tell whether the deals will have any overall impact on growth, and that the government and the cities could have worked together in a more structured way to agree a consistent approach to evaluating the deals’ impact. There have been early impacts from some of the individual programmes agreed in the deals. It has, however, taken longer for cities and departments to implement some of the programmes that required more innovative funding or assurance mechanisms.</p> <p>The government has set out its ambition to continue devolving responsibility for local growth to cities and other local places. The report highlights that both the government and local places can learn from the experience of Wave 1 City Deals to manage devolution to local places effectively.</p> <p>The report is available on the NAO website www.nao.org.uk/report/devolving-responsibilities-to-cities-in-england-wave-1-city-deals/</p>	<p><i>The Committee may wish to seek assurances how their Authority fit into the emerging City Deals.</i></p>

Area	Level of Impact	Comments
<p>Greater Manchester Combined Authority</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 103</p>	<p>●</p> <p>For Information</p>	<p>Greater Manchester Combined Authority (GMCA) has pioneered the concept of local devolution within England. ‘Devo Manc’ encompasses a broad range of proposals to address the challenges and opportunities GM is facing:</p> <p>Health and Social Care</p> <p>Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and sustainable Plan for health and social care.</p> <p>As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested.</p> <p>GM proposals</p> <p>In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region:</p> <ul style="list-style-type: none"> ■ Investment in transport infrastructure ■ New funding mechanisms to support site remediation and infrastructure provision ■ Making better use of Social Housing Assets to support growth ■ Locally led low carbon ■ A scaled-up GM Reform Investment Fund ■ Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance ■ Fundamental review of the way services to children are delivered ■ Research and innovation funding ■ Investment in integrated business support to drive growth and productivity ■ Reform of the New Homes Bonus ■ Further employment and skills reform ■ GM approach to data sharing across public agencies ■ Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax <p>All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.</p>

Area	Level of Impact	Comments
<p>Public Sector Audit Appointments Ltd (PSAA) – VFM profiles update</p> <p>Page 104</p>	<p>● For Information</p>	<p>Public Sector Audit Appointments Ltd (PSAA) maintain the Value for Money profiles tool (VFM profiles) initially developed by the Audit Commission. The profiles were updated on 1 October 2015.</p> <p>The VFM profiles planned budget section now contains the 2015/16 data sourced from the Department for Communities and Local Government – General Fund Revenue Account Budget (RA). The values are adjusted with gross domestic product (GDP) deflators from the HM Treasury's publication in June 2015. The profiles can be accessed through the PSAA's homepage at http://www.psa.co.uk/</p> <p>Other sections of the VFM profiles have also been updated with the latest data values for the following data sources:</p> <ul style="list-style-type: none"> ■ Inequality gap (2012/13) ■ Fuel poverty (2013) ■ Climate change (2013) ■ Alcohol related admissions (2013/14) ■ Mid-year population estimates (2014) ■ Chlamydia testing (2014) ■ Participation in education or work-based learning (2014) ■ Housing benefit speed of processing (2014/15) ■ CT and NNDR collection rates (2014/15) ■ NHS health checks (2014/15) ■ Planning applications (Quarter 4 2014/15) ■ Delayed transfers of care (Quarter 1 2015) ■ Under 5 provision (2015)



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Appendix

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	TBC
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	TBC
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	March 2016	TBC
Final			
Final report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	TBC



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External Audit Plan 2015/2016

Barnsley Metropolitan
Borough Council
January 2016

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at £12 million.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £0.6 million.

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Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Consolidation of subsidiaries; and
- Minimum Revenue Provision.

Other areas of audit focus

We have not identified any risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

See pages 3 to 5 for more details.

Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment is ongoing and, should any arise, we will report VFM significant risks during our audit.

See pages 6 to 8 for more details.

Logistics



Our team is:

- Clare Partridge – Director
- Linda Wild – Manager
- Matthew Moore – Assistant Manager

More details are on **page 11**.

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 10**.

Our fee for the audit is £135,998 (£181,331 in 2014/2015) see **page 9**.

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

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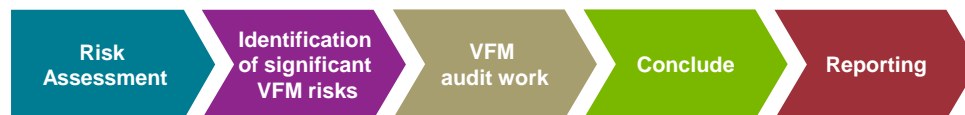
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16.



Financial Statements Audit Planning

Our planning work takes place during January to February 2015. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

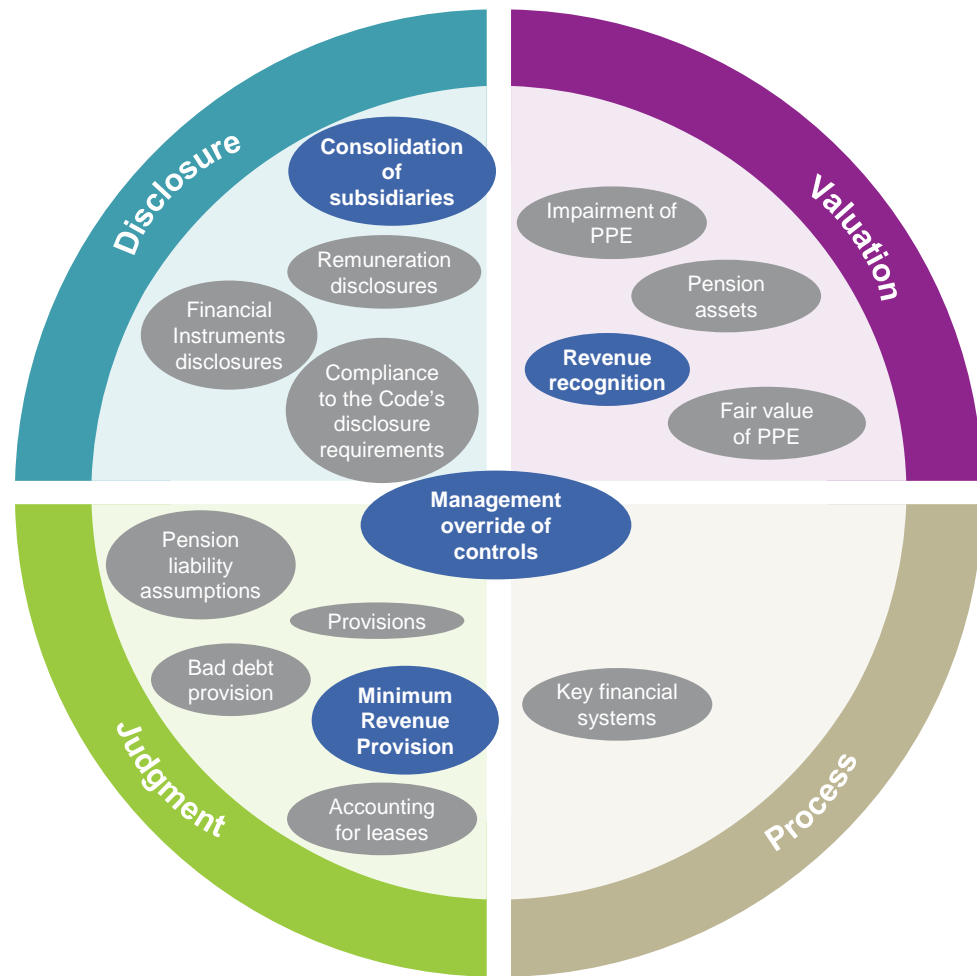
Risk assessment

Professional standards require us to consider two standard risks for all organisations. We do not elaborate on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our 260 Report.

Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example of other areas considered by our approach



Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Significant Risk 1 – Consolidation of subsidiary companies

- Risk – the Authority is the parent company for a number of subsidiary companies, some of which are new and came into operation during 2015/16. The Authority has not produced group accounts for the last few years and it is not clear at this stage whether group accounts will be required in 2015/16 as a result of the creation of the new subsidiary companies.
- Approach – we will discuss the requirements for group accounting with officers and review the Authority's proposed accounting treatment as part of our interim audit visit. The accounting treatment will be revisited when we receive the draft statement of accounts.

Significant Risk 2 – Minimum Revenue Provision

- Risk – for 2015/16 the Authority has proposed a change in the methodology used to calculate their Minimum Revenue Provision. The Minimum Revenue Provision charge is the means by which capital expenditure which is financed by borrowing or credit arrangements is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as a provision for this debt.
- Approach – we have considered the proposed new methodology and are not minded to challenge it at this stage. We will review the proposal in more detail as part of our interim audit and substantively test the accounting entries when they are available to us.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £12 million which equates to 1.7 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

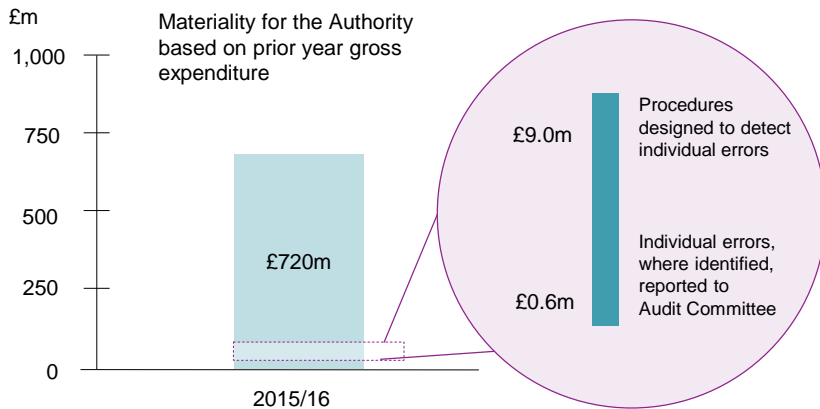
Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



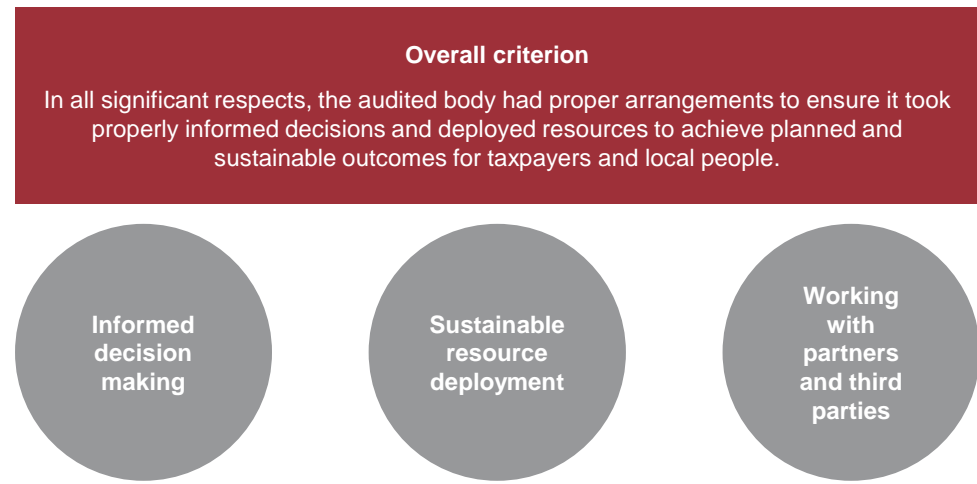
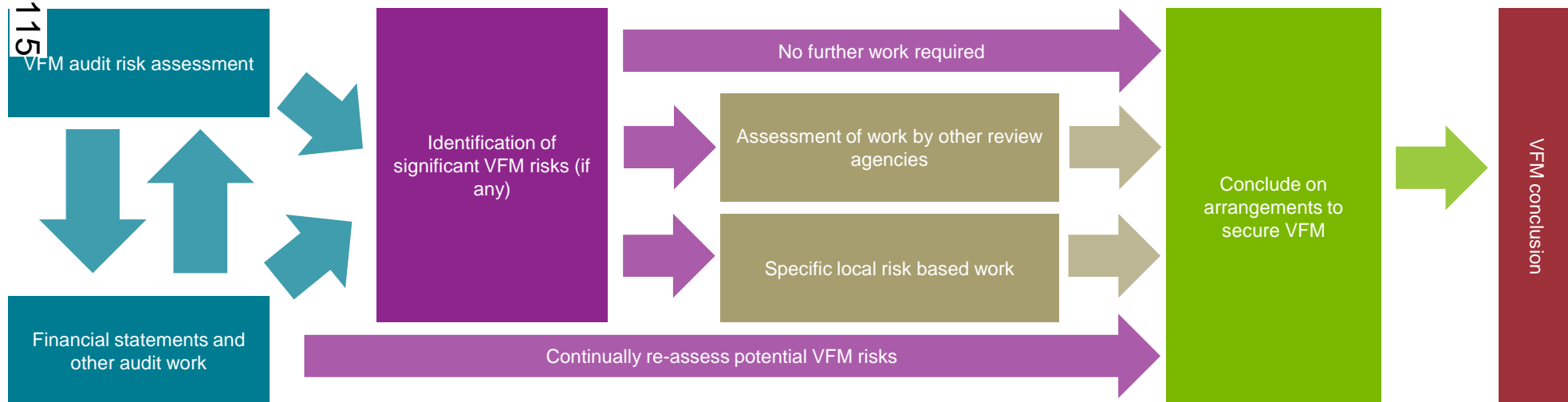
Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a basis to our VFM work at the Authority. The diagram to the right shows the details of the criteria.

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VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Work packages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

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Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Clare Partridge, your new Director. Clare will provide a fresh perspective to the audit and your manager will be Linda Wild who will maintain the continuity on the audit. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

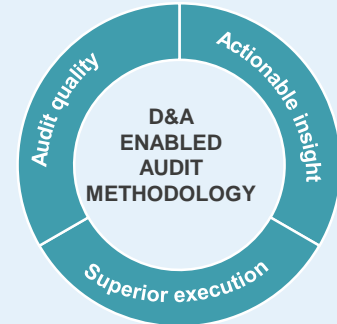
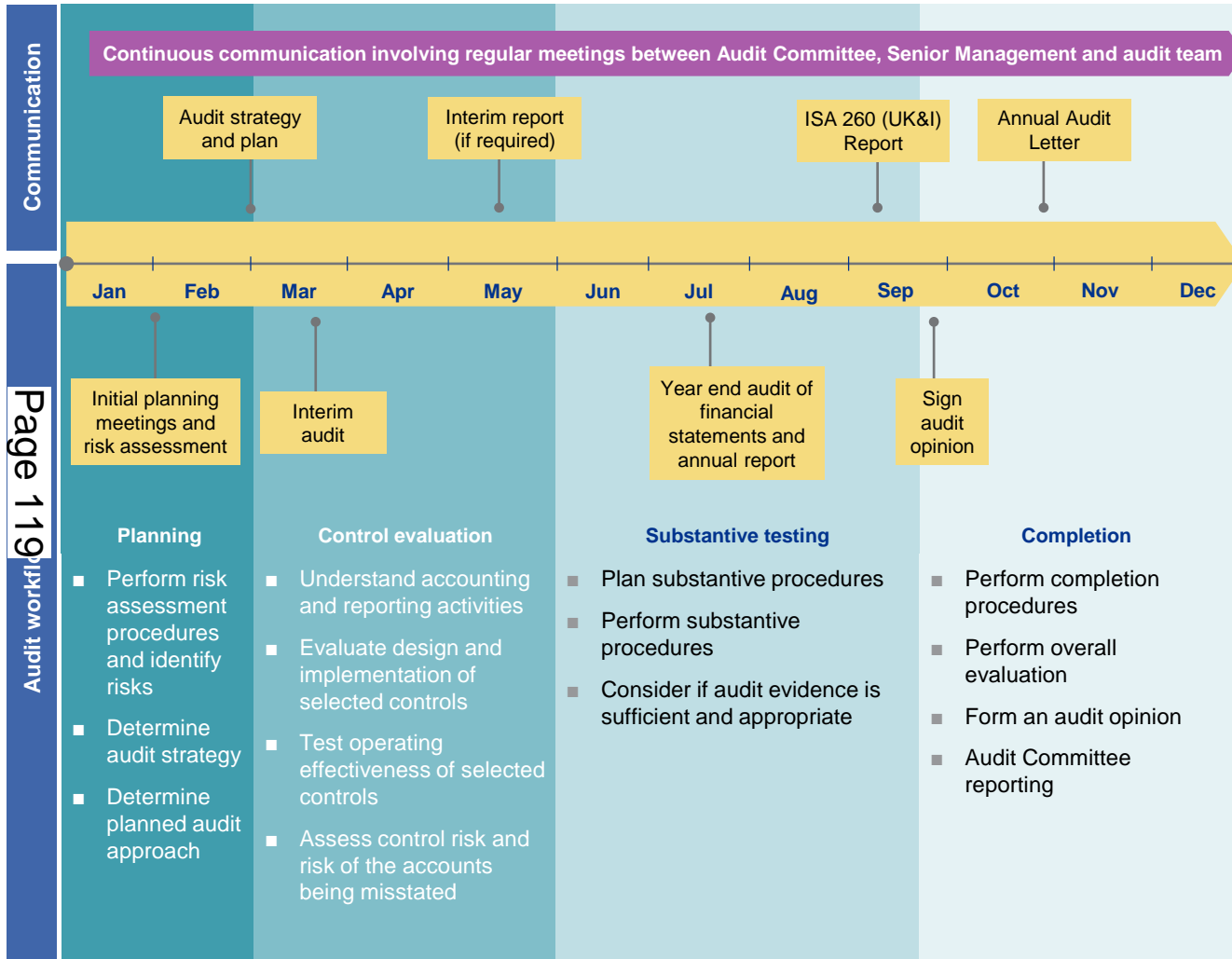
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee 2015/16 is £135,998. This is a reduction in audit fee, compared to 2014/2015, of £181,331 (25%).

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



Your audit team has been drawn from our specialist public sector assurance department. You have a new Director and Assistant Manager who will bring fresh insight to the audit and you have the same Manager as last year, to provide continuity.



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Name	Clare Partridge
Position	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee and Chief Executive.</p>

Clare Partridge
 Director
 0113 2313922 / 07990 551735
 clare.partridge@kpmg.co.uk



Name	Linda Wild
Position	Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Clare, the Director, to ensure we add value.</p> <p>I will liaise with the Director of Finance, Property and Information Services and other Executive Directors.'</p>

Linda Wild
 Manager
 0113 2313512 / 07717 483538
 linda.wild@kpmg.co.uk



Name	Matthew Moore
Position	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>

Matthew Moore
 Assistant Manager
 0113 2313663 / 07737 506243
 matthew.moore@kpmg.co.uk

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Other to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of January 2016, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Clare Partridge, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



Local Government Budget Survey

February 2016

www.kpmg.com/uk

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Introduction

Introduction

The local government sector faces well-documented, significant financial challenges for the foreseeable future. There are also opportunities linked to economic growth, notably with the new homes bonus and the prospect of local business rates retention, and the potential devolution of power to local areas. There is also an increased exposure to financial risk and volatility if growth is not as high or as sustained as hoped, or if demands for services outstrip expectations and lead to additional pressures. There is also the challenge of responding to the impact of central policies such as the 1% reduction in social housing rents from 2016-17, and the increased emphasis on home ownership rather than social renting. In this changing environment, high quality budget setting and monitoring are more important than ever for local government.

KPMG's 2011 publication 'The Brilliant Local Authority of the future' summarised the challenge facing local authorities.

"As the public sector recession bites and the localism agenda gathers pace, local government will have to address both the threats and opportunities that these forces are creating."

The paper explained that;

"In an age of austerity an iron-like grip on the organisation's financial position will be imperative..... This will entail a focus on management accounting and understanding the financial and operational performance of all parts of the business".

https://portal.ema.kworld.kpmg.com/audit/countries/europe/AuditPeople/DeptSites/IGHAudit/Technical%20guidance%20Library/RRD254220%20Brilliant%20Local%20Authority_v11.pdf

KPMG is proud to be the external auditor of a significant number of local government clients, and our audit teams consider key aspects of budget setting and budget monitoring alongside their external audit work. This paper sets out the results of a survey they completed in 2015, and analyses the assumptions and techniques used by our clients to generate budgets and to monitor them.

Our audit teams were very aware that when our clients were setting the 2015-16 budgets they were waiting for clarity about their funding for future years. Some clients had chosen not to publish a medium term financial plan until there was more certainty. Where this was the case, we took into account the work that officers were doing in preparation of the Comprehensive Spending Assessment.

Purpose of this paper

Our aim is that our clients find this paper useful when thinking about the budget information required to help address the financial challenges that they face. We hope that it will help our clients to take a fresh look at their approach to budget setting and monitoring. As financial risks and rewards continue to be localised, budgets will need to become more and more flexible and responsive to changes within financial years. We recognise that there is no single solution or blueprint for successful budgetary control, and that it is up to each client to find their own balance of summarised information and detailed data.

We plan to carry out a similar review next year. We would welcome feedback on this first version, and if there are any areas that you think that it would be useful to cover please let us know. Please let your local audit team know if you have any feedback or if there is anything you want us to take into account.

Introduction (cont.)

Our clients

We have analysed the 97 survey responses from our audit teams.

Client Type	Responses
Districts	41
London Boroughs	11
Unitary Authorities	11
Metropolitan Boroughs	10
Police & Crime Commissioners	8
Fire & Civil Defence Authorities	7
Counties	6
Transport Executives	2
Combined Authority	1
Total	97

Report Format

The paper provides the results of the responses, along with a brief analysis of the highlights (including extra information that audit teams provided where appropriate). We have also provided some possible questions that Members may wish to consider in the context of their own organisations. These questions are collated at the end of the report for ease of reference.

Key messages

We know that our local government clients have already taken significant steps to deal with the changes in their funding structure over the last few years. This paper highlights that as the financial challenges increase over the next few years there are measures that our clients can consider using in order to strengthen elements of their budget preparation, analysis, monitoring and reporting.

The move to more localised risks and rewards mean that techniques such as sensitivity analyses (to identify pressure points) and financial ratios will be key as the potential for financial volatility in the sector increases. This volatility in income and expenditure could happen at any time as well as on the annual budget-setting process, and so it is also increasingly important that our clients are alert and responsive to changes within the year, and to indications that their budgetary assumptions are no longer valid.

Tracking the achievement of savings is not straightforward. Sometimes plans need to be shelved for positive reasons – for example when there is unexpected demand for a service that generates income. It is important to identify the reasons for successful plans as well as those that fail in order to learn for the future.

The likely link between local growth and our clients' financial well-being means that selecting the right 'invest-to-save' schemes is vital, and the survey suggests that more use could be made of key processes for assessing the potential projects.

As financial pressures increase, savings measures may need to be re-considered or revisited, alongside ways to generate income.

As savings become harder to achieve, the distinction between recurrent and non-recurrent savings becomes ever more important, and also an important element of reporting to members. The General Fund Reserve is a critical safety net, and setting the minimum level is a key task that should take into account the level and nature of usable reserves, and in particular if there is a lack of flexibility within those other reserves.

The results of our survey highlight differences in the way that our clients are budgeting for key financial factors such as inflation, borrowing and lending rates and employee related cost pressures. Similarly, there is variation in the factors used to generate the budget, with some such as demographics and population change less used than others. Whilst there is no single correct approach, all of our clients need to be alert to the impact of variations on expectations.

The amount of Local Government reserves is being increasingly challenged, and there needs to be a clear understanding of the reason for the current and planned levels, and what flexibility there is within them if there becomes a need for them to reduce.

Our survey also suggests that there is some scope for further analysis of our clients' assets to identify options for change. Asset management plans that are aligned to service and staffing changes are important for ensuring that those options are co-ordinated and realistic.

We know that many of our clients are still working hard to address gaps in their savings targets for future years, and all of them will need to re-assess their assumptions when the results of the financial settlement are made clear, along with the detail behind recent announcements are made available. It is vital that their budgetary frameworks are fit-for-purpose to respond to the challenges.

The remainder of this report sets out the results of our survey and the questions we have suggested for Members to consider. We look forward to your feedback.

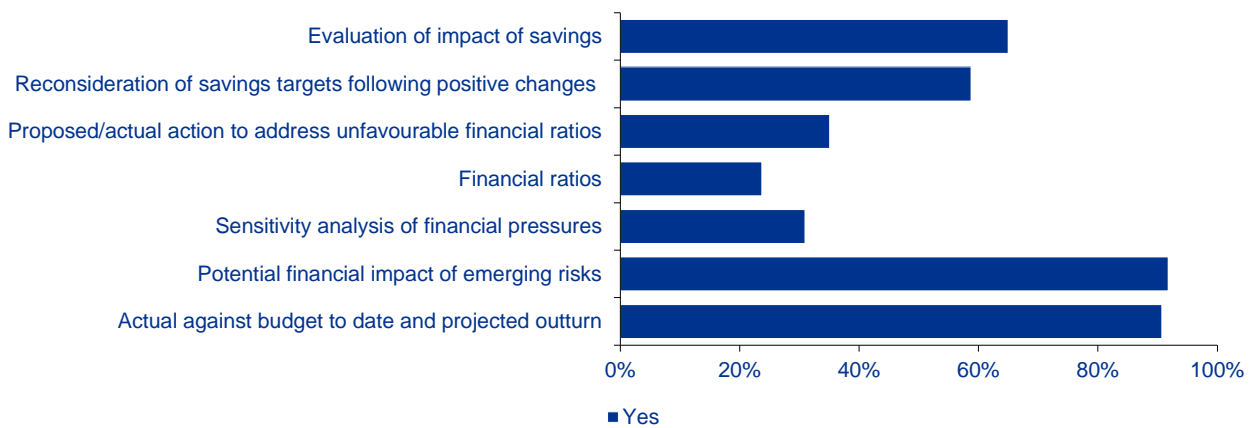
Comparatives

1

What's in your Budget Monitoring Reports?

We looked at our clients' main budget monitoring reports to see if they contained a series of potentially important elements.

Do budget monitoring reports include the following:



As expected, most budget monitoring reports identify the actual position against budget to date and a projected outturn, and the financial impact of emerging risks. The use of sensitivity analysis and financial ratios is less developed. It may be that Members will view these as more important as local financial volatility increases with the move away from block central funding.

Our audit teams highlighted some local practices that influence what goes in to the budget monitoring reports. These included that portfolio holders receive monthly summarised reports for their budget areas that supplement the quarterly reporting, or that particular committees receive detailed reports in addition to the high level reports for all members. Financial ratios are sometimes limited to particular areas, such as in the context of the Treasury Management Strategy.

There is no universal 'right level' of detail in budget monitoring reports – the key is that the reports provide decision-makers with sufficient information in the context of the other information that they receive to allow them to understand the financial position and projections.



Questions to Consider

- Do your budget monitoring reports provide an appropriate level of detail?
- Given the likelihood of increased financial pressures and volatility, do your budget monitoring reports need to evolve?
- Do members have the necessary training, skills & experience to interpret the budgetary reports and information provided?

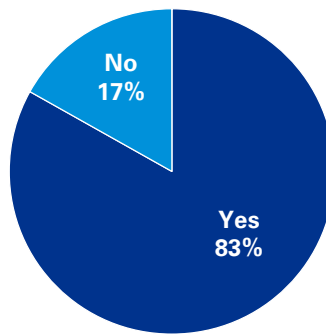
Comparatives (cont.)

2

Did you achieve last year's savings plans?

We looked at the achievement of the overall savings targets alongside the monitoring of the individual savings plans.

Did 2014-15 actual savings meet the budgeted target?



With the uncertainty about the future level and nature of funding, we know that many clients were looking to build up their levels of resilience in 2014-15, and many had savings plans that were designed to help increase useable reserves. The majority of clients met their 2014-15 budgeted savings target.

Some of our audit teams commented that better than expected income had had a significant impact on the net financial outcome – for example from the levels of new homes bonus and planning fees. We recognise that sometimes planned savings such as staff reductions are put on hold in order to meet unexpected demand for services. Tracking the achievement of savings in these circumstances can become complicated, and there is also a risk that unexpected income could result in a reduced focus on making savings elsewhere in the budget.

Our audit teams also noted examples of clients ensuring that the use of reserves is allowed only to provide new or enhanced services, and not to deal with deficits or overspends (which could mask failure to meet the savings targets). They also referred to cases where savings are built into budgets, and so are not separately identified – this links into the question on the following page.



Questions to Consider

- Do you know if your savings to-date in 2015-16 are on target to meet the budgeted amount?
- If you have received unexpected income in 2015-16, are you clear how it has impacted on your savings targets?
- If any of your 2015-16 individual savings schemes or the overall savings targets are not being achieved, do you know why?

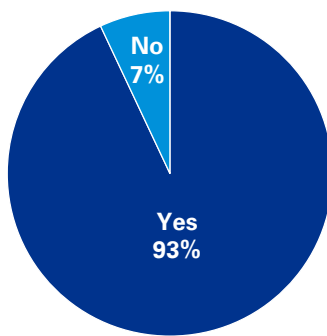
Comparatives (cont.)

3

Are individual savings plans monitored centrally?

We asked whether the individual schemes that make-up the overall savings plans are monitored centrally on an on-going basis.

Were individual savings projects/plans monitored during the year to check that expected savings remained deliverable in 2014-15?



As may be expected, the majority of our clients monitor individual schemes centrally. Audit teams that answered 'no' reported that the client approach is to expect budget holders to deliver their overall net financial target which incorporates the savings plans, and so the central monitoring is based on this net position rather than separating out savings plans.

As the pressure on budgets continues, savings will be increasingly hard to find. Whatever system is used to monitor the achievement of savings plans, it is vital that schemes that are failing to achieve the expected results are highlighted early, and that alternative measures are in place to address the financial shortfall. It is also important to learn the lessons as to why schemes fail in order to help avoid problems recurring. Similarly, successful ones can be analysed to understand the success factors, and to see if they can be replicated.



Questions to Consider

- Are you confident that you identify savings schemes that are failing at an early stage?
- Do you have alternative measures to substitute for failing savings schemes?
- Are successful schemes evaluated to identify why they worked, and to see if they can be applied in other parts of your organisation?

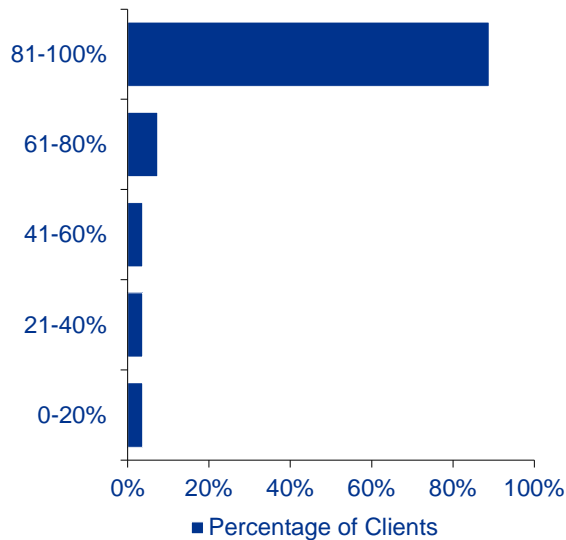
Comparatives (cont.)

4

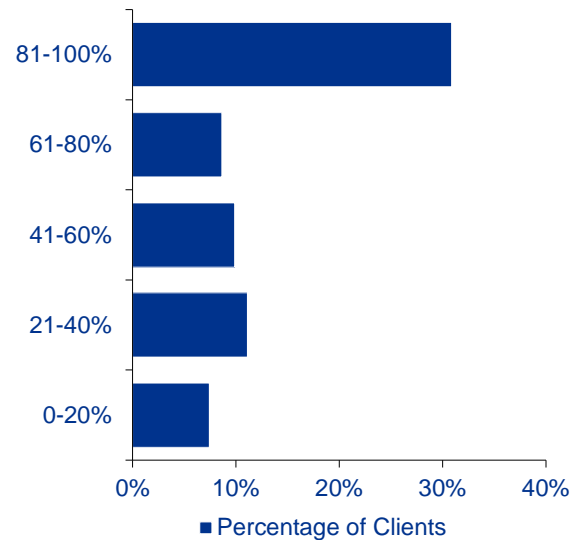
Do you have detailed plans for your savings?

We looked at what proportion of the savings targets for 2015-16 and 2016-17 had detailed plans at the start of the 2015-16 financial year to achieve them. We know that as the level of funding was uncertain beyond 2015-16, officers were estimating what level of savings will be needed.

What percentage of 2015-16 budget savings were backed by detailed plans as at 31 March 2015?



What percentage of 2016-17 budget savings were backed by detailed plans as at 31 March 2015?



At the start of the 2015-16 year, over 80% of clients had detailed plans that covered the level of savings needed. This dropped to below 40% for the 2016-17 year. As the financial position is clarified for 2016-17 and beyond, there will be a need to revisit the expected level of savings to ensure that the assumptions made remain valid and that the plans to achieve them are complete and robust on an ongoing basis.



Questions to Consider

- Are all of your savings targets backed with detailed plans?
- Are you confident that the detailed savings plans are robust and realistic?
- Are detailed savings plans updated to ensure that they reflect changes in circumstances?

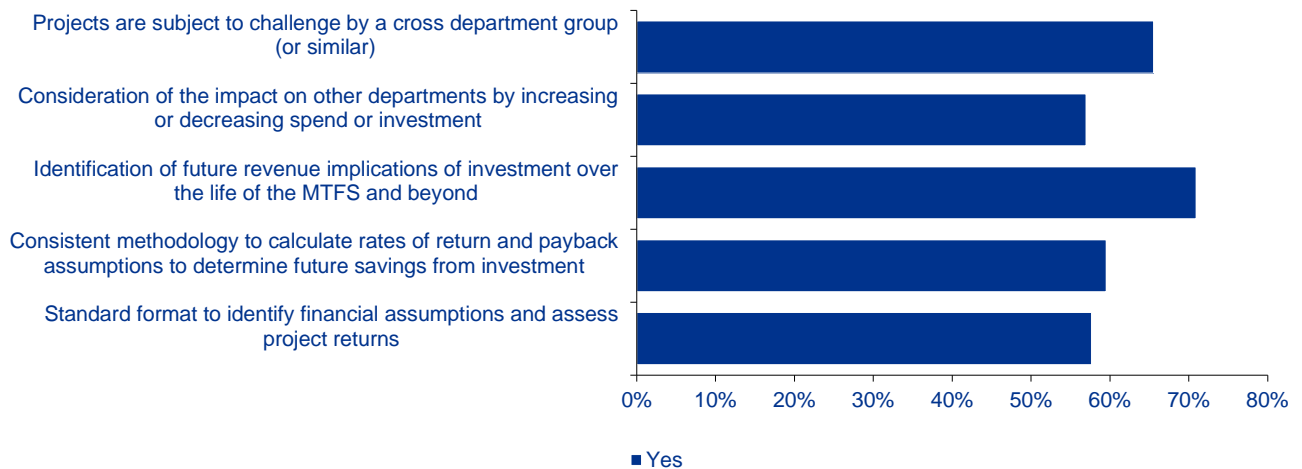
Comparatives (cont.)

5


When you consider possible invest-to-save projects, what factors do you take into account?

Even in financially pressured times we know that our clients will have opportunities to invest in new projects, and that those projects will not necessarily have an immediate or short-term impact, and may go beyond the life of the Medium Term Financial Strategy (MTFS). As available resources become more scarce, and the link increases between local economy growth and councils' financial well-being because of the localisation of economic risk and reward, it is more important than ever to have a strong framework in place to select the most appropriate invest-to-save projects. We looked at all clients for each of the elements below on a yes/no basis.

Are individual invest-to-save projects appraised using the following factors in a consistent way?



Our audit teams identified that not all of the possible tools and techniques available to our clients are being used routinely. We recognise that this may be because for some there is limited opportunity to invest-to-save, and we also recognise that the framework used to select the projects is dependent on local factors, such as the risk appetite, the range of opportunities, potential partners and other factors. However, with the confirmation of the intention to move to local business rate retention and the removal of Revenue Support Grant by 2020, selecting the right invest-to-save projects and monitoring their outcomes against their objectives will become increasingly important. It is also important to check how approved projects perform against the projected outcomes, and to assess why any significant variations have come about.



Questions to Consider

- Is your process for assessing invest-to-save projects robust and consistent?
- Are there tools and techniques you could use to help strengthen your current invest-to-save process?
- How robustly do you review the outcomes of invest-to-save projects?

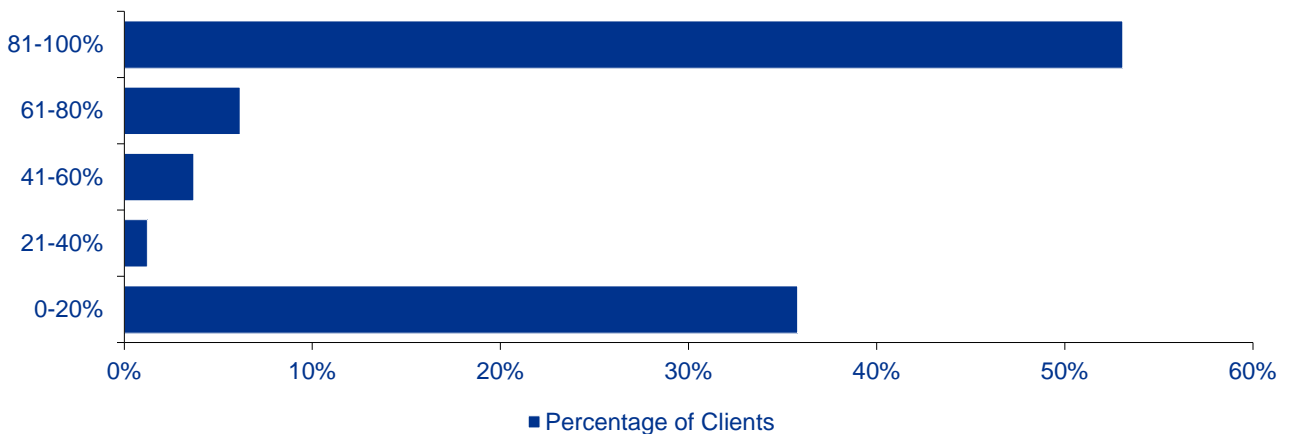
Comparatives (cont.)

6

Are your savings recurrent?

We considered the level of recurrent savings within the overall delivery of the plans. Recurrent savings are those that impact on more than one year. For example, removing a post is a permanent reduction in the budget – a vacancy freeze that delays recruitment to a post is a temporary, non-recurrent measure.

What percentage of 2014-15 actual budget savings were recurrent savings?



The majority or all of many clients’ savings were recurrent, which linked to permanent reductions in staffing levels and service reductions. Recurrent savings are particularly important in times where savings are required year-on-year, as any non-recurrent savings from previous years have to be re-achieved alongside the current year’s targets.

Unexpected income is welcome, but there can be a risk that it can help to mask either the underachievement of savings. This is a particular problem if the income is non-recurrent, as those savings will need to be made to avoid the financial impact simply transferring to the next year.

In some cases, the proportion of recurrent/non-recurrent savings was not available, and these are included in the 0-20% group above.



Questions to Consider

- Do you know the recurrent and non-recurrent levels in your savings plans for 2015-16 and beyond?
- Has the impact of any non-recurrent savings from previous years been factored into current and future savings plans?
- Do you assess unexpected income to check that it is recurrent/non-recurrent and that it has been factored in appropriately to financial monitoring and plans?

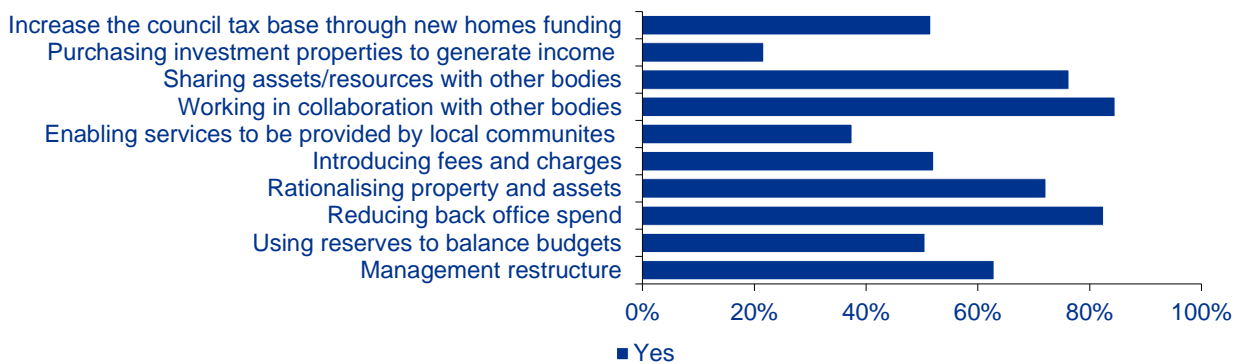
Comparatives (cont.)

7

What savings measures are you relying on for 2015-16 and beyond?

We looked at the savings measures that our clients are using in their budgets to make their medium term financial plans balance.

Which of the following measures are being used to deliver the 2015-16 budget and/or in the following years?




It is inevitable that not all clients will use all the measures, as the levels of financial pressure vary, as does the capacity to implement a variety of measures. We also recognise that some of the ‘no’ answers in the survey are because our clients have already used particular measures in previous years, such as management restructuring, where a period of stability may be appropriate to enable the changes to take effect.

It may be though that previous decisions – for example not to introduce/increase further fees and charges, or to continue to provide the current range of non-statutory services – will need to be revisited as financial pressures increase, and it is inevitable that some clients will need to make very difficult decisions in order to deliver their statutory financial responsibilities.

We asked our audit teams to highlight any other savings measures that were being used by our clients. They highlighted the following examples;

- Vacancy Management;
- Business Rates income growth;
- Withdrawal of services not deemed a priority or affordable;
- Early repayment of debt;
- Establishing a Housing Growth Company;
- Increased joint working and joint venturing;
- Procurement and contracting renegotiations; and
- Assets review and restructuring.



Questions to Consider

- Are you confident that your plans will enable you to continue to meet your statutory financial responsibilities?
- Have you considered all possible savings measures available to you?
- Are there any aspects of your budget that need to be revisited?

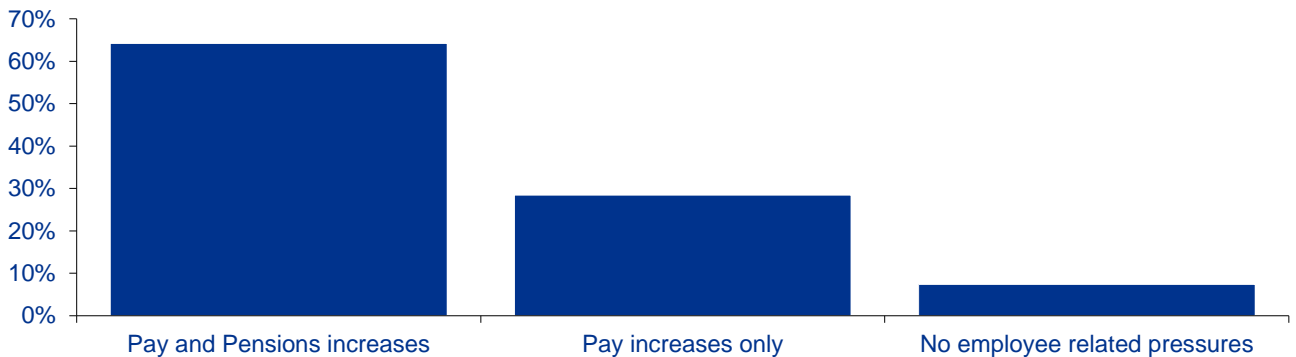
Comparatives (cont.)

8

Do you allow for pay and pension increases in your budget?

We asked all clients about their approach to factoring in employee related cost pressures, namely do you allow for pay and pension increases, just pay, or do you not allocate specific amounts for either?

What employee-related cost pressures does the 2015-16 budget include?



Nearly two-thirds of our clients factored in the impact of pay and pensions increases into the amount given to budget holders to manage. More than a quarter of our clients allowed for pay increases only in 2015-16, and in a year when there is no routine change in the actuary’s recommended level of pension contribution (which results from the triennial review), the variation in pension costs is unlikely to be significant overall. However, at an individual budget holder level, pension costs could vary up or down because of factors such as changes in the profile of staff in relation to their age, and decisions by employees to join or leave the scheme. Finally, our survey identified that a small number of clients expect their budget holders to absorb any additional employee-related costs into the overall budget that they are given to manage.

We are aware that our clients will also need to take account of the introduction of the national living wage from April 2016. There may be some internal (including subsidiary company) staff costs, but for many clients the bigger impact will be the additional costs incurred by their suppliers and the need to establish the way forward with them for service provision and continuity.



Questions to Consider

- If you don’t allow for pay and/or pension cost increases, can you identify any areas of the budget that are vulnerable to significant cost variations?
- Do you have mechanisms to identify and deal with changes to staff costs within year?
- Have you evaluated the cost of the national living wage across your cost base, including your supply chain?

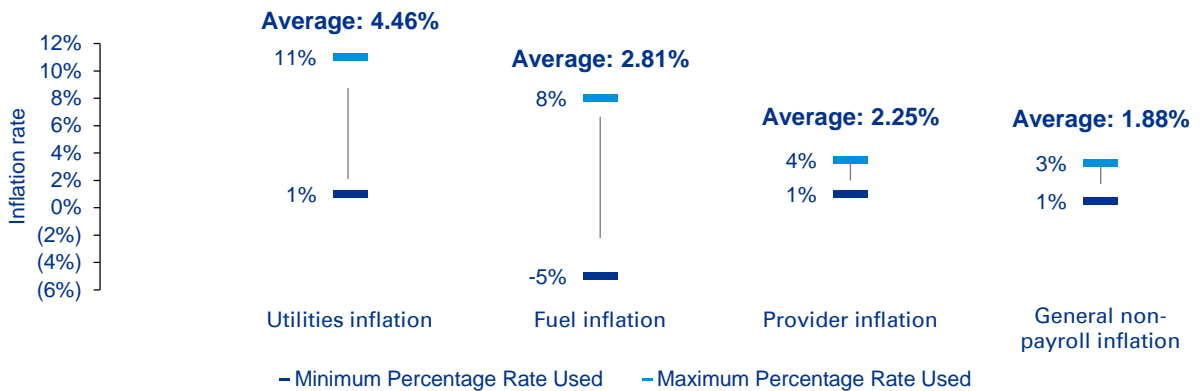
Comparatives (cont.)

9

What inflation rates do you use for particular cost pressures?

We looked at all of our clients' use of non-standard rates of inflation when preparing the budgets, focusing on four common variants. Whilst we were aware that some used a single inflation rate, we knew that others have decided to use differing rates for areas that could have a significant impact on their financial position.

If the 2015-16 budget includes separate inflation rates for the following, which rate is used?



We found that there were some large differences in the inflation assumptions made for fuel and utilities in particular (and we accept that all may be valid due to local circumstances, such as fixed increase, variable or new contract rates). Assumptions by nature are subjective, but they can be updated if it becomes clear that they are not correct. Although overall inflation is at a relatively low level, the current financial pressure means that the impact of variations in aspects of it could make a difference to achieving targets.

Our audit teams also identified that clients used inflation variations for the areas below:

- Hardware and Software price increases;
- Insurance and postage cost increases;
- Indexation increases in partnership arrangements;
- Landfill tax and building repairs; and
- Fee income rates raised to match the overall inflation assumption.



Questions to Consider

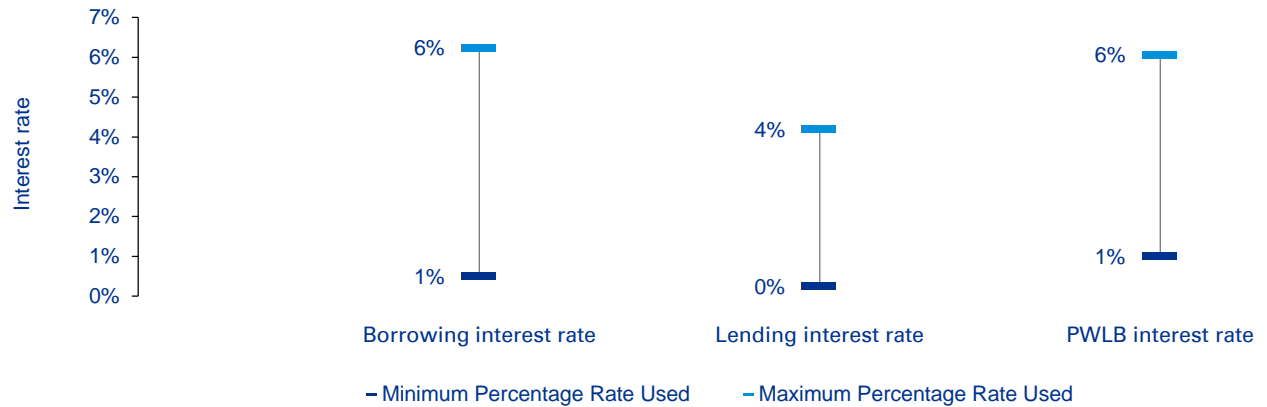
- Do you understand how your budget takes inflation into account (e.g. which supplies & services are on fixed/variable rates)?
- Do you know which inflation rate changes would have the biggest impact on your budget?
- How do you deal with inflation variations that happen within the year?

Comparatives (cont.)

10 **What rates have you used in your budget for borrowing and lending, and what other specific rates do you factor in to your budget?**

We looked at the assumptions about borrowing and lending rates that our clients have used for generating 2015-16 budgets and beyond. We also considered if our clients had identified any further areas of non-pay expenditure for particular rates.


What rates are being used to budget for borrowing and lending?



The chart shows that there were variations in the assumptions used. Lending and borrowing rates are comparatively low historically, but the variations suggest that local circumstances still make a difference to the budget assumptions. This is likely to be related to existing arrangements that date back to when rates were higher.

Audit teams also identified specific assumptions for the following non-pay areas, including the following examples:

- Rent increases;
- Change in the Council Tax base;
- Pension Lump sum increases; and
- Reduction in direct central government support.



Questions to Consider

- Do you know what borrowing and lending assumptions are used when generating the budget?
- Have you identified the areas of your budget where rate assumptions need to be specified?
- Are you alert to changes in rates within year?

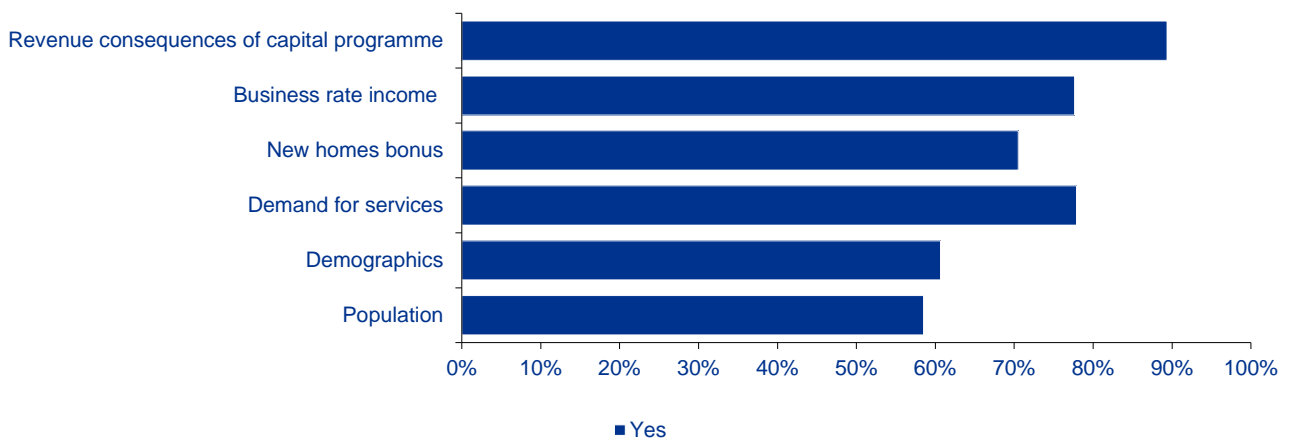
Comparatives (cont.)

11

What factors do you use when developing your budget?

We looked at a particular range of factors that are commonly used when generating budgets, and considered whether our clients used them.

Does the 2015-16 budget include evaluation of the potential financial impact of changes in the following factors?



Although all of these factors were used by the majority of our clients, the proportion using demographics (e.g. deprivation levels, average age) and population (e.g. size and location) factors was smaller than the others. It is generally accepted that the overall population is growing, and that the number of older people with complex needs is likely to increase. However, the impact will vary in different areas.

Income sources such as new homes bonus and business rates, and the demand for services from the public, are subject to variables such as economic conditions and changes in government policy. Scenario planning for the impact of changes is vital to help prepare for different outcomes. It is also important to ensure that the impact of the capital programme is affordable and to update that assessment as budgets are revised.

Questions to Consider

- Do you make use of all available data to help generate your budget?
- Do you understand how your budget is impacted by changes in the factors that drive it?
- Do you revisit the capital programme to ensure its revenue impact remains affordable?

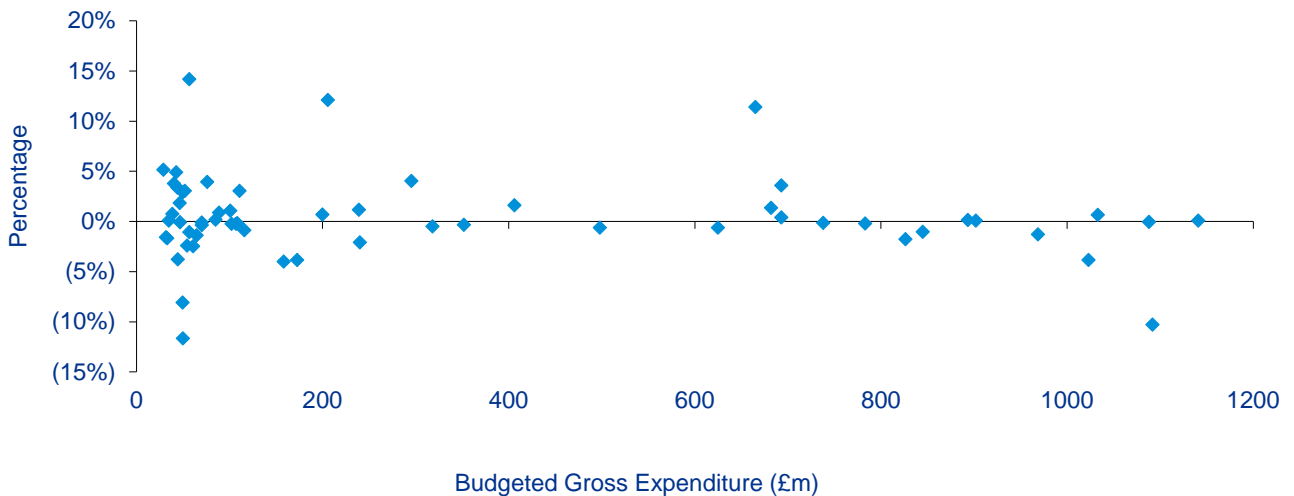
Comparatives (cont.)

12


What is the planned change in usable reserves in 2015-16?

The level of local government reserves is a much-debated topic. We looked at the planned change in the overall level of usable reserves in 2015-16 from the opening to the closing position, and compared it to the level of gross expenditure across all clients. Usable reserves includes amounts earmarked for particular reasons. Earmarked funds can be flexible – changes in policies, intended projects and plans can mean that they can become either insufficient or not needed.

What is the budget change of useable reserves as a percentage of budgeted gross expenditure compared to budgeted gross expenditure?



Many clients are planning to keep usable reserves relatively stable at the end of the year, with most variations within plus or minus 5% of the starting point. A small number have larger variations. The increases reflect that some are aiming to boost financial resilience reserves in preparation for the expected challenges to come. The reductions could be due to the appropriate application of earmarked reserves for planned expenditure. However if reserves are being used to help achieve a balanced budget for 2015-16, this may be a concern given that the financial pressure is expected to increase in the following years.



Questions to Consider

- Do you think the level of your usable reserves is about right?
- Do you understand the reason for any planned changes in the level of usable reserves?
- Do you know how much flexibility you have in your usable reserves?

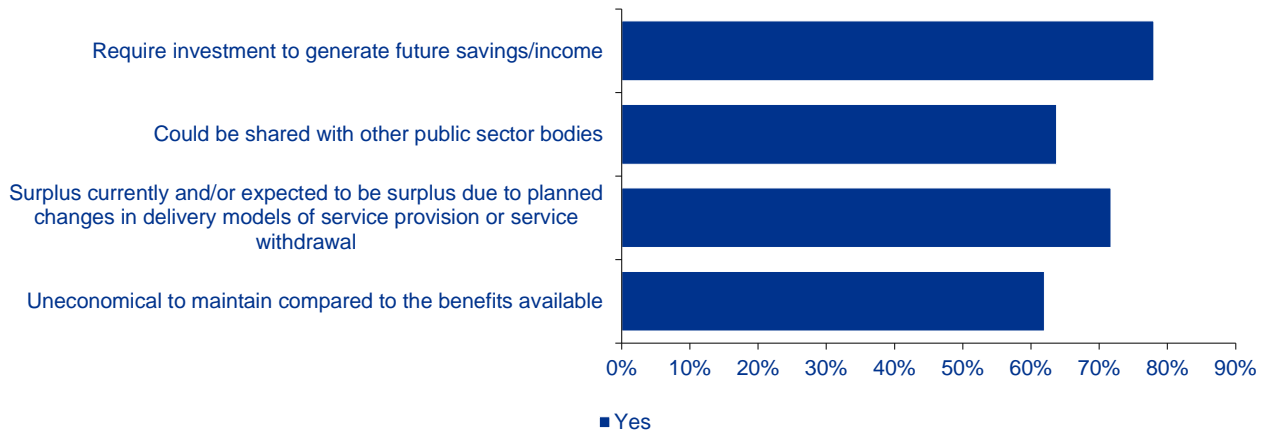
Comparatives (cont.)

13

Have you analysed your asset base?

We are aware that many of our clients are reviewing their assets to see if they can make more use of them. We considered whether our clients had analysed assets that met four categories.

Does the body have an up to date analysis of its assets to identify those that meet the following descriptions:



The results suggest that the analysis of the costs and benefits of assets, and the analysis of current and likely surplus assets is up-to-date at a significant number of clients, but not so at a minority. Similarly, the majority of our clients have an up-to-date analysis of assets that could be made available for shared use, and that more have worked out which assets require investment. However, it is likely that some could do more to fully understand what their options are.

The importance of these assessments will vary depending on the nature of the asset base. We also recognise that some clients are taking steps such as changing ways of working that will release assets in the future, and so their analysis will be on-going. Nevertheless, asset review and management are likely to be important budgetary measures given the financial challenges. An asset utilisation plan can be used to summarise the intended use of assets, and it is vital that it is co-ordinated with any intended changes in the way that services are delivered, or changes to internal operations in order to ensure it is up-to-date.

Questions to Consider

- Do you have a comprehensive and current asset utilisation plan?
- Do your asset plans align with any intended changes to service delivery or internal ways of working?
- Are all options for asset use being considered?



Summary of Questions to Consider

Questions to Consider

1

What's in your Budget Monitoring Reports?

Questions to Consider

- Do your budget monitoring reports provide an appropriate level of detail?
- Given the likelihood of increased financial pressures and volatility, do your budget monitoring reports need to evolve?
- Do members have the necessary training, skills & experience to interpret the budgetary reports and information provided?

2

Did you achieve last year's savings plans?

Questions to Consider

- Do you know if your savings to-date in 2015-16 are on target to meet the budgeted amount?
- If you have received unexpected income in 2015-16, are you clear how it has impacted on your savings targets?
- If any of your 2015-16 individual savings schemes or the overall savings targets are not being achieved, do you know why?

3

Are individual savings plans monitored centrally?

Questions to Consider

- Are you confident that you identify savings schemes that are failing at an early stage?
- Do you have alternative measures to substitute for failing savings schemes?
- Are successful schemes evaluated to identify why they worked, and to see if they can be applied in other parts of your organisation?

4

Do you have detailed plans for your savings?

Questions to Consider

- Are all of your savings targets backed with detailed plans?
- Are you confident that the detailed savings plans are robust and realistic?
- Are detailed savings plans updated to ensure that they reflect changes in circumstances?

5

When you consider possible invest-to-save projects, what factors do you take into account?

Questions to Consider

- Is your process for assessing invest-to-save projects robust and consistent?
- Are there tools and techniques you could use to help strengthen your current invest-to-save process?
- How robustly do you review the outcomes of invest-to-save projects?

Questions to Consider

6

Are your savings recurrent?

Questions to Consider

- Do you know the recurrent and non-recurrent levels in your savings plans for 2015-16 and beyond?
- Has the impact of any non-recurrent savings from previous years been factored into current and future savings plans?
- Do you assess unexpected income to check that it is recurrent/non-recurrent and that it has been factored in appropriately to financial monitoring and plans?

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What savings measures are you relying on for 2015-16 and beyond?

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- Are you confident that your plans will enable you to continue to meet your statutory financial responsibilities?
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Questions to Consider

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BARNSELY MBC AUDIT COMMITTEE – INDICATIVE WORK PROGRAMME

	Mtg. No.	7	8	1	2	3	4	5	6
Committee Work Area	Contact / Author	23.03.16	20.04.16	8.06.16	20.07.16	23.09.16	2.11.16	7.12.16	18.1.17
Committee Arrangements									
Committee Work Programme	WW	X	X	X	X	X	X	X	X
Minutes/Actions Arising	WW	X	X	X	X	X	X	X	X
Review of Terms of Reference and Self Assessment	RW/CHAIR		X	X					
Training Review and Skills Assessment	RW/CHAIR		X	X					
Review of Terms of Reference & Working Arrangements	FF								X
Draft Audit Committee Annual Report	RW/CHAIR		X						
Audit Committee Annual Report	RW/CHAIR			X					
Internal Control and Governance Environment									
Local Code of Corporate Governance	AF/AH	X							
Annual Governance Review Process and Timescales	AF/AH	X							
Draft Annual Governance Statement & Action Plan	AF/AH				X				
Final Annual Governance Statement	AF/AH					X			
AGS Action Plan Update	AF/AH							X	
Corporate Whistleblowing Update & Annual Report	RW		X						
Annual Fraud Report	RW			X					
Fraud Management Update / SPD Review	RW							X	
RIPA Update Report	AF/GK		X			X			
Review of Ombudsman Complaints	AF	X From 20.01.16						X	
Corporate Risk Management									
Risk Management Policy & Strategy	AH		X						
Risk Management Update	AH								X
Annual Report	AH			X					
Strategic Risk Register Review	AH		X				X		X
Update on risk 3030 & business continuity for IT	FF/AH								
Internal Audit									

	Mtg. No.	7	8	1	2	3	4	5	6
Committee Work Area	Contact / Author	23.03.16	20.04.16	8.06.16	20.07.16	23.09.16	2.11.16	7.12.16	18.1.17
Internal Audit Charter & Strategy	RW	X							
Internal Audit Plan	RW	X							
Internal Audit Quarterly Report Benchmarking performance	RW		X	X	X		X		X
Annual Review of the Effectiveness of Internal Audit	RW			X					
Review of the Effectiveness of Int. Audit - Update	RW							X	X
External Assessment of the Internal Audit Function	RW	X		X					
Internal Audit Annual Report	RW			X					
Corporate Fraud Team - Report	RW	X				X			
External Audit (KPMG)									
Annual Governance Report (ISA260 Report)	KPMG					X			
Audit Plan	KPMG	X							
Annual Fees Letter	KPMG	X		X					
Annual Audit Letter	KPMG						X		
Grants Letter	KPMG				X				
Claims & Returns Annual Report	KPMG	X (from 20.01.16)							
External Audit Progress report & Technical Update	KPMG	X	X		X	X	X	X	X
Financial Reporting and Accounts									
Budget Proposal Section 25 Report	FF/NC	X							
Draft Statement of Accounts Percentage of debt on year by year basis	FF/NC FF/NC		X		X				
Corporate Finance Summary	FF/NC					X			
Corporate Finance and Performance Management & Capital Programme Update	NC	X				X	X		X
Treasury Management Annual Report	IR					X			
Treasury Mgt. Policy & Strategy Statement	IR	X							
MRP Options/rationale	IR		X						

Item 13

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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