

MEETING:	Audit Committee
DATE:	Wednesday, 19 April 2017
TIME:	4.00 pm
VENUE:	Reception Room, Barnsley Town Hall

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

61. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST

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

62. MINUTES

The minutes of the meeting held on the 22nd March, 2017 were taken as read and signed by the Chair as a correct record.

63. ACTIONS ARISING FROM THE PREVIOUS MEETINGS

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

The Executive Director of Core Services reported that in relation to the Annual Governance Statement Action Plan 2016/17, the Committee was due to have received a report on issues around business continuity and the need to close the gaps in certain areas. He commented that the necessary action had been taken and an assurance could now be given that the 'gaps' had been closed.

The Chair commented on the importance of compliance with the detailed response dates given that some reports were now outstanding.

RESOLVED that the report be noted.

64. INTERNAL AUDIT CHARTER

The Head of Internal Audit and Corporate Anti-Fraud submitted a report prefacing the annually reviewed and revised Internal Audit Charter.

It was explained that the update had been considered in the light of the revised Public Sector Internal Audit Standards which had become effective on the 1st April, 2017. The latest review ensured that the Charter reflected the current working arrangements of the function but also the aspirations and developments necessary to ensure continuous improvement. In addition, the Charter reflected the changes within the broad client base and the revised structure of the Service that became effective from 1st April, 2017 following a fundamental review as part of the Future Council programme.

The report outlined those organisations to which Internal Audit provided services and indicated that coverage was now a 40:60 split between Council and non-Council

clients. The Charter would be reviewed annually to ensure it remained reflective of the current working arrangements and professional standards.

The Charter was appended to the report and the Head of Internal Audit and Corporate Anti-Fraud ran through the changes that had been included and the implications thereof.

Reference was then made, amongst other things, to the following:

- The new definition of Internal Audit as defined by the Public Sector Internal Audit Standards which focussed on evaluating and improving the effectiveness of risk, control and governance beyond that of basic compliance
- The 10 Core Principles for internal Audit as defined in the International Standards for the Professional Practice of Internal Auditing. It was noted that the final three Principles listed in particular focused more on the new approach to audit including the consultancy and advisory role
- It was noted that CIPFA had yet to update its own guidance aligned to the new Auditing Standards
- The Code of Ethics included four components which set out the accountability for Internal Audit. It was noted that independence and accountability were key in this respect
- The arrangements for Anti-Fraud, Corruption and Bribery were outlined as were the management responsibilities for ensuring that appropriate arrangements were in place
- The Charter made reference to the requirement that Internal Audit had the necessary authority to obtain such information and explanations it considered necessary in order to fulfil its responsibilities as well as the need to demonstrate that it was providing value to those organisations it dealt with particularly as this related to consultancy work
- In relation to the resourcing of Internal Audit, it was reported that the vacancy within the unit was to be filled from the 2nd May, 2017. The person appointed was a L Booth (formerly from KPMG) who would be responsible for the 'Council Team' and would attend future meetings of this Committee
- Arising out of the above, there was a discussion centering on the ability of the service to undertake the required consultancy work with the current staffing structure. In response, the Head of Internal Audit and Corporate Anti-Fraud stated that his service was in no different position to many other service areas, however, given the changing approach to risk awareness and risk profiles, this was not considered to be an issue. The biggest advantage with the new Charter was the ability to be forward focussed and proactive in being able to promote organisational improvement
- Reference was made to the allocation of planned days to each individual client and how variances would be addressed throughout the year.
- Arising out of the above, reference was made to the intention to produce a strategy document for each client. The Council's Strategy document detailing the approach over the next three years would be submitted to the next meeting

RESOLVED that the report be received and it be noted that the Committee is satisfied that the Internal Audit Charter meets the requirements of the Public Sector Internal Audit Standards and adequately represents and describes the required function to provide this Committee and senior management with a professional service.

65. INTERNAL AUDIT QUARTERLY REPORT - QUARTER ENDED 31ST MARCH, 2017

The Head of Internal Audit and Corporate Anti-Fraud submitted a report providing a comprehensive overview of the key activities and findings of Internal Audit based on the Division's work covering the fourth quarter ending 31st March, 2017.

The report covered:

- The issues arising from completed Internal Audit work in the period
- Matters that had required investigation
- An opinion on the ongoing overall assurance Internal Audit was 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 final quarter of 2016/17
- Details of Internal Audit's performance for the quarter utilising performance indicators

Reports issued and the Internal Audit work completed during the period had raised one fundamental recommendation relating to a data management issue.

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

Of the 9 recommendations followed up, 67% had been implemented by the original target date and 33% had not implemented with revised implementation dates being agreed by management.

In relation to the Audit Plan, actual dates delivered were 97 (7%) below that planned at the end of the financial year.

Overall, Divisional performance remained satisfactory and all Performance Indicators were either on or exceeding target levels.

The annual report would be presented to the June meeting of the Committee and this would summarise all Internal Audit activity and performance for the year. This would be presented for consideration alongside the draft Annual Governance Statement.

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

- As reported at the January meeting, the number of days delivered was below that planned because the final quarter of the year had been geared primarily towards external clients. It was important to note, however, that none of the variances impacted on the ability to provide an assurance opinion
- Arising out of the above discussion, reference was made to the rationale for the deferral or deletion of items from the Audit Plan which had been undertaken and agreed in consultation with management. In this respect, particular reference was made to the deletion of the Process re-engineering Review (Highways, Local Roads) on the basis that the client no longer required the review as this was being covered through a different piece of work.
- It was noted that the statistical data showed an improving position compared to the previous year
- It was pleasing to note the positive feedback for the work undertaken within the fourth quarter
- Concern was expressed in relation to the Management of Personnel and Confidential Information and the use of 'H' drives as this had implications for the accessibility of information and potentially impacted on management reporting and decision making. The recommendation had an implementation date of 30th June, 2017 but an update would be provided for the next meeting. This piece of work had been commissioned by Children's Services but was in fact a far wider issue. Arising out of the discussion, reference was made to the reasons for staff continuing to use network drives which were largely based upon historical factors as well as a legacy system that had proved problematical. The Authority had now adopted 'SharePoint' as its primary repository for the storage and retrieval of information and services were being moved onto this system on a phased basis.
- Referring to the Receipt and Banking of Income and particularly as this related to the merchant copy of receipts retained by Cannon Hall, the Head of Internal Audit and Corporate Anti-Fraud commented that an update would be provided on the safe custody of receipts as in various areas, the Authority was not compliant with industry standards. In this respect reference was also made to the incorrect allocation and collection of VAT which, although not of great value, was nevertheless being addressed
- In relation to the follow up protocol of key issues, it was noted that this was dependent upon the significance of the issue identified
- Reference was made to the importance of services maintaining operational independence and in response to questioning the Head of Internal Audit and Corporate Anti-Fraud stressed that the service was not in a position to veto management decisions. The Internal Audit Service was there to act as critical friend and to challenge and there was a good understanding within the Authority of the role of Internal Audit
- The Director of Core Services reported that work on the Register of Interests had been deferred until 2017/18 which was to allow flexibility within the work plan. The audit had been instigated to ensure that systems were compliant, however, the Governance and Member Support Service was extremely proactive in ensuring that the Register was maintained

- Referring to Appendix 1 of the report, Mr Moore (KPMG) stated that it was important for him to meet with representatives from Internal Audit to ensure that there were no significant issues relating to areas where there was only limited assurance opinion

RESOLVED

- (i) that the issues arising from the completed internal audit work for the period along with the responses received from management be noted;
- (ii) that the assurance opinion on the adequacy and effectiveness of the Authority's Internal Control Framework based on the work of Internal Audit in the period to the end of March 2017 be noted;
- (iii) that the progress against the Internal Audit Plan for 2016/17 for the period to the end of March, 2017 be noted; and
- (iv) that the performance of the Internal Audit Division for the final quarter be noted.

66. STRATEGIC RISK REGISTER - FULL REVIEW MARCH 2017

The Executive Director Core Services submitted a report presenting a draft report to be submitted to Cabinet on the 3rd May, 2017 on a review of the Strategic Risk Register undertaken in March, 2017.

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 October 2016, a further review had been undertaken in March 2017 the outcomes of which were detailed within the report. Mr Hunt outlined in some detail the way in which the register had been reviewed and he commented on the main components of the review and the items included.

The report outlined:

- The key risks across the six 'concern' rating classifications
- The changes to the risks logged since the last review

- It was noted that the number of risks had decreased by one since the last review in October 2016 with the removal of Risk 3842 (Failure to ensure the transfer of 0-19 services...) as this was now being managed at a Business Unit Level
- Two risks had a reduced risk rating:
 - Risk 3023 (Failure to engage with Stakeholders) – due to the revised Community Engagement Strategy that had been approved by Cabinet recently
 - Risk 3514 (Failure to be able to deliver the ambitions and outcomes associated with the Community Strategy Implementation (CIS) Programme) – due to the improved confidence to deliver the CIS programme
- Details of the average risk score for the Register, from the ‘zero-based’ review undertaken in 2013 were detailed. There was a slight variance in the average concern rating which was directly attributable to the removal of risk 3842 allied to changes to risks 3023 and 3514 as detailed above
- The significant/red risks and new and emerging risks and the risk mitigating actions. Whilst no new risks had been included, a number of emerging issues had been identified following conversations with Risk Owners in relation to Data Quality, Adult Social Care and Brexit and further details would be included within the next iteration of the Register presented in October
- Other significant changes to the Strategic Risk Register

A further review of the Register was now programmed with other governance related reports such as those 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 risks was being managed appropriately and Appendices to the report provided details of:

- The background to the Strategic Risk Register
- The improved risks
- The ‘direction of travel’ trends
- The risks that had been completed
- The new mitigation actions
- A copy of the full Strategic Risk Register

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

- In relation to risk 3034 (Failure to deliver the MTFS and associated KLoE/Budget Savings ‘Failure of Future Council to achieve the required level of savings’) it was noted that this had received a red rating and that there was a low level compliance with a computerised budget management system. This issue was being addressed and a wide ranging training programme was being developed along with performance metrics to assess future compliance. A further review was due by the 30th September, 2017
- Risk 3023 (Failure to Engage Stakeholders) had been highlighted as a potential emerging risk by the Chief Executive and Executive Director

Communities due to the potential for increased community tensions as a result of the Brexit decision which could result in the loss of community cohesion and increased incidents of hate crime. This matter would be investigated fully and a further report presented in October. It was noted that the Council's Community Cohesion Champion was undertaking a lot of work in this area

- It was suggested that the consequences associated with Risk 3792 (Failure to be prepared to assist in the event of an emergency resilience event in the region) be re-worded to refer to 'potential industrial action' given that industrial action was seldom taken. Arising out of this, the Director of Core Services referred to the small resilience team and to the recent 'success' of that team as demonstrated by the action instigated as a result of the fire at the Chicago Rock night club. It was felt, however, that processes and procedures in relation to emergencies and the action required needed to be more embedded within services. This matter was being addressed. The Risk and Governance Manager commented that recent improvements might mean that this risk should be re-evaluated in terms of its rating
- Arising out of the discussion, the Committee noted that Information Governance was now included within the Terms of Reference (subject to Annual Council approval), it might, therefore, be appropriate to receive a briefing/awareness session on Information Governance linked to the risks detailed on the Strategic Risk Register. The Head of Internal Audit and Corporate Anti-Fraud commented that some of the Strategic Risks were the responsibility of Senior Management Team members. The owners of those risks could be invited to this Committee to explain their role and the action being taken to mitigate risks

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 progress of the actions taken and their impact on the Strategic Risk Register; and
- (ii) that the report be referred to Cabinet on the 3rd May, 2017 for consideration.

67. RISK MANAGEMENT FRAMEWORK REVIEW

The Service Director Finance submitted a report providing the Committee with assurance that, following review, the Risk Management Framework remained fit for purpose prior to the Framework being considered and approved by Cabinet on the 3rd May, 2017.

It was important that the Framework remain up to date in order to accurately reflect the effective and efficient management of risks to the achievement of the objectives. This was of particular relevance and importance given the Future Council programme. The Framework (including the Risk Management Policy Objective

Statement and Risk Management Strategy) were key elements in the implementation of good governance arrangements and formed key elements of the Council's Annual Governance Review process.

The report gave details of the contents of the Risk Management Framework and provided a table showing each individual element together with a brief commentary as to any updates required. The report went on to outline the importance that the Risk Management Policy Objective Statement and Strategy had in seeking to ensure that any significant risks that could impact upon the delivery of the Authority's objectives were appropriately managed in order to minimise the significant potential obstacles to the achievement of the corporate objectives. It also focused on the development of the Risk Management Policy Objective Statement and Strategy and the contribution this would make to the embedding of a risk management culture throughout the Council.

Appendices to the report provided the following:

- Risk Management Strategy 2017/18
- Corporate Assurance Group Terms of Reference 2017/18
- Risk Acceptance Model 2017/18
- Risk 'Challenge' Process 2017/18
- Risk Management Training Strategy 2017/18

In response to questioning, the Risk and Governance Manager commented on the following:

- It was not anticipated that there would be any issues in meeting the Performance Indicators detailed within Appendix 1 of the Strategy document
- Reference was made to the Risk Management Training Strategy and how it was ensured that Risk Management was embedded within the Council. Appropriate training was provided where required and details would be provided for members of the Committee
- In referring to the Risk Acceptance Model detailed within Appendix 3, reference was made to the Council's aspirations in relation to the ways in which it would:
 - respond positively to challenges
 - make the most of limited and reducing resources
 - ensure plans, projects and programmes were appropriately resourced to maximise success and deliver the intended priorities and outcomes
 - implement robust arrangements to performance manage progress

RESOLVED that the assurances of the Risk Management Framework and the fact that it remains fit for purpose be noted and the report be referred to Cabinet on the 3rd May, 2017 for consideration and approval.

68. AUDIT COMMITTEE TERMS OF REFERENCE

The Director of Core Services submitted a report requesting the Committee to consider amendments to the Terms of Reference to take account of:

- Future Council developments;
- the establishment of the Core Services Directorate; and
- comments made by Members of this Committee at the workshop meeting held in November, 2017 about the need to expand the role of the Committee.

It was noted that, if agreed, the new Terms of Reference would be reported for approval to the Annual Council on the 19th May, 2017 for implementation in the new Municipal Year.

The revised Terms of Reference also enabled the Committee to invite members of the Senior Management Team to meetings to discuss strategic risks within their service area. It would be possible for periodic reports to be submitted on additional corporate functions that contributed to overall assurance against the corporate priorities and specifically, but not exclusively, in relation to:

- Human Resources
- Business Improvement and Communications
- Health and Safety Resilience
- Governance and Member Support
- Information Governance

In addition, Senior Management Team Members could be invited to meetings on a periodic basis to give assurance about issues identified within reports relating to various Directorate activities and, in particular, those which were subject to Internal Audit recommendation. It was hoped that this would encourage wider dialogue with members of this Committee.

RECOMMENDED TO ANNUAL COUNCIL that the revised Terms of Reference as detailed within the appendix to the report now submitted be approved for implementation from the new municipal year.

69. EXTERNAL AUDIT - TECHNICAL UPDATE INCORPORATING EXTERNAL AUDIT PROGRESS REPORT

Mr M Moore (KPMG) presented the Technical Update and External Audit progress report.

The Committee was informed that the Interim Audit was substantially complete and that an interim report would be submitted to the June meeting.

Work was continuing on Value for Money throughout the audit and any findings would be reported as part of the interim report. Planning was currently underway for the certification of the claims and returns and work on the 2016/17 Housing Benefit

and Council Tax Benefit Claim would be undertaken in accordance with the appropriate guidance. Work was also being undertaken in relation to grants claims and returns which fell outside the PSAA regime in relation to the Teachers' Pension Agency Return and the Pooling of Capital Receipts.

An appendix to the report gave details of the 2016/17 deliverables together with the timing and status of those deliverables.

The report then went on to give details of KPMG resources and recent technical developments.

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

- The use of reserves and the possible need to look at new approaches to finding fresh income including data sharing as detailed within the Resources paper. Mr Moore stated that details of the reports referred to could be circulated to all members. He reported that KPMG were working with a number of Councils on various issues in this area and the officer undertaking this work would be able to come to a future meeting to outline they type of work undertaken if this was required
- Arising out of the above discussion the Head of Financial Services briefly outlined the current approach to the Council's reserves strategy. The Director of Core Services stated that the budget papers considered by Council contained details of the Council's current use of reserves and balances and these could be re-circulated

RESOLVED that the External Audit progress report, resources and technical update be noted.

70. AUDIT COMMITTEE WORK PLAN 2015/16

The Committee received a report providing the indicative work plan for the Committee for its proposed scheduled meetings for the 2017/18 municipal year.

The Executive Director Core Service reminded members that the Work Plan had been revised to take account of the issues raised within the Terms of Reference report discussed earlier in the meeting and also addressed issues raised at the Workshop meeting held in November, 2016.

RESOLVED that the core work plan for 2017/18 meetings of the Audit Committee be approved and reviewed on a regular basis.

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Chair