

DONCASTER METROPOLITAN BOROUGH COUNCIL

AUDIT COMMITTEE

WEDNESDAY, 25TH JANUARY, 2017

A MEETING of the AUDIT COMMITTEE was held at the COUNCIL CHAMBER - CIVIC OFFICE on WEDNESDAY, 25TH JANUARY, 2017, at 10.00 am.

PRESENT:

Chair - Councillor Austen White  
Vice-Chair - Councillor Richard A Jones

Councillors Iris Beech, Susan Durant and John Healy

Kathryn Smart (Co-opted member)

37 DECLARATIONS OF INTEREST, IF ANY

There were no declarations reported at the meeting.

38 MINUTES OF THE MEETING HELD ON 17TH NOVEMBER, 2016

RESOLVED that the minutes of the meeting held on 17th November, 2016 be approved as a correct record and signed by the Chair.

39 AUDIT COMMITTEE ACTIONS LOG

The Committee received a report detailing the Audit Committee Action Log which updated members on actions agreed during Audit Committee meetings, thereby allowing Members to monitor progress against these actions, ensuring satisfactory progress was being made.

It was reported that of the action identified within the Appendix to the report, the majority were classified as "green", either having been fully addressed and for removal from the log or because arrangements were in hand and the actions were not yet due. Members were advised that one "red" action had been cleared since the last meeting which was in relation to a contract breach for payments relating to Older Peoples Alarm Systems, which were now regarded as grant payments, formerly under Supporting People Grant.

It was also advised that one item was rated 'Amber' which was with regard to the Solar Centre Contract Breach – Progress was being made in determining options for this service and in the meantime its use was being reduced as care packages were reviewed. In addition to the report, Members were advised that this action would not now be completed by March and a further waiver may be sought. This would be reflected within the next Breaches and Waivers report to Committee.

Kathryn Smart stated that in relation to the RIPA training that had been discussed with Audit Members, she had completed the on-line training which she had found useful. She also queried that with regard the Fraud Risk Register whether DMBC would be interested in looking into products supplied by CIPFA. In response, it was reported

that review was being carried out into the products and what the cost and benefit would be for the Authority.

The Chair requested an update in relation to SAPAT. In response, the Committee were advised that extensive work had been carried out in this area and this would be discussed at the Improvement Board shortly. It was noted that numbers had dropped significantly from 900 to 600. It was further acknowledged that the process had not been managed well and further work had been carried out on strengthening practices and procedures and because there were still some outstanding issues to be resolved it was envisaged that it would be a few months before this matter would be fully completed. A report would be brought to the next meeting of the Committee.

RESOLVED that the progress being made against the actions agreed at the previous meeting, be noted.

#### 40 STRATEGIC BUDGET RISK MANAGEMENT.

The Committee considered a report which presented an in-depth review of how the budget risks were managed, reviewed and reported following consideration of the Strategic Risk Mapping report to the Audit Committee on 17th August 2016.

The Chair reminded members that the Committee should focus on the process of risk management and not on the details. Members were presented with a brief overview of how risks were managed within the service and the reporting mechanisms of those risks i.e. focussing on particular seasons such as gritting in the winter months.

A query was raised with regard to the pension deficit identified at page 26 of the report and why the Council were in the position it was. Members were advised that in the 1990's Local Authorities were given the opportunity to take a pension holiday, of which Doncaster did along with other authorities. Since that time, the recovery rate had been up and down but there was still a significant deficit to recover. It was noted that it was the Council's single biggest debt but the amount was going down and will continue to do so. With regard to pre-payment on debt recovery the Council would be looking to do this again to achieve resulting revenue budget savings. If the Council were to have good years then the deficit would decrease quicker. Members were assured that the Council were in a reasonably positive position compared to other local authorities.

It was asked whether the smaller risks were taken into consideration as well as the significant risks. Members were advised whilst the quarterly monitoring report details those risks which were above £250,000 it didn't mean that the others were not considered. As Members will see within the budget report due to be submitted to Cabinet on the 14<sup>th</sup> February, it will supply Members with a breakdown of the risks on reserves. It was noted that so far the risks come to less than the Council has within its reserves. It was also advised that within that Cabinet report a further breakdown of the risks would be provided within the risks and assumptions paragraph of that report.

Comments were sought from an Internal Audit perspective. It was reported that it had been a couple of years since this issue had been looked at in detail, but through examining quarterly monitoring reports there was no evidence of the Council not having any financial resilience and this wasn't an area of significant risk for the Council.

It was queried whether Brexit would be considered as part of risk management. It was reported that Brexit was on the risk register but it was noted that business rates presented a fluid picture at present and the ebbs and flows of companies was high. Unfortunately at this time it would be too far in advance to predict what may happen but the Council would be making every effort in devising long term plans. The Chair indicated that there could be potential opportunities for the Council and should be seeking the advantage now to enable Doncaster to get the best available deals. It was reported that work was continuing by bringing business into Doncaster. Members were reminded that Brexit was still an unknown quantity and it was likely that the same rules would apply as they do now in relation to EU procurement. With regard to inward investment Doncaster is ahead in terms of growth, the Council is in a much better position than other local authorities.

With regard to Pensions, it was asked whether it would be possible to report back to the Committee so Members could be assured of the financial situation. It was reported that at present it wouldn't be the right time to send information to Members as the picture was still unsure. It was advised that there would be six pools of investment within the Country and as far as the Council were aware, Doncaster would still work with South Yorkshire Pensions, it will be the person who is employed to deal with investment that would sit somewhere else within the country. It was noted that there would be no change to administration but this may change in the future and would be subject to another debate.

In relation to the Children Trust realistic annual budget target identified at page 30 of the report, the Chair asked whether the target score of 2 was realistic and what monitoring takes place on the projections. It was reported that the Council were working closely with the Trust through the contract review process. The Council had also asked for KPMG's input and opinion from both sides. It was advised that regular meetings take place as well as the quarterly performance cycle. There had been marginal positive changes and the Council were fairly positive regarding the projections. Further work was required with regard to robustness of practices and the Council were seeking information on a much quicker basis. With regard to the risk share for 2017/18 it was envisaged that this would reduce but the Council should not forget that the children were still under the Council's responsibility as a corporate parent.

Concern was raised as to whether enough pressure was being applied on the Trust. It was also queried whether any effort had been made into working more closely to try and mitigate expenditures. It was reported that discussions had taken place with regard to collaboration of services for example an Adoption Service, of which the Trust may take a lead. Other examples included residential/home investment to avoid the need to use external/out of the borough placements. It was advised that all these issues were being looked into not just at a senior level meetings but throughout the staffing levels.

The Chair sought a financial opinion on the medium term future prospect for the next 3 to 4 years. It was reported that the prospect was reasonably positive. Levels of savings should be secure and management levels should be back to normal. It was envisaged that by the year 2020 the Council should be back to normal levels of budgetary reductions. However, investment and demand management may prove to be a challenge for the Council but it was felt that the Council were self aware of these issues.

The Chair asked whether there were any other ways where directorate service risks identified can be improved. It was reported that a pragmatic approach had been the preferred approach for a number of years and where risks had needed to be escalated then this has happened. Officers were reasonably happy with this approach and it had yielded good results.

With regard to the Children's Trust, KPMG had identified this as a risk within their report, it was asked how the work KPMG were undertaking would fit in with the work of the Council. It was reported that this would be carried out with the continuation of liaising with Finance to ensure there was a clear conclusion at the end of the process.

RESOLVED that the report be noted.

#### 41 QUARTER 2 2016/17 STRATEGIC RISK UPDATE

Members received a report which provided an overview of the Strategic Risks profiles in Quarter 2 2016/17. In a response to an action from the last Audit Committee regarding Members receiving more timely updates, the Strategic Risk Register for Quarter 2 had already been emailed to Members in December 2016.

It was reported that there are 18 Strategic Risks and all had been updated as part of the Quarter 2 reporting process. A new risk had been proposed to highlight the increasing impact of cyber threats; the wording for this risk had been developed and would be profiled at Quarter 3. No risks had been identified as being removed, 14 risk profiles had remained the same during the quarter.

Members were advised that effective mitigation actions had reduces 3 profiles, detailed as follows:-

- Failure to set robust assumptions on pensions deficit recovery ad future contribution rate for the 2016 valuation;
- The potential personal financial position facing individual citizens across Doncaster Borough may result in an increase of poverty and deprivation; and
- Failure to achieve the budget targets for 2016/17 and 17/18

It was also noted that 1 profile had also increased in relation to the devolution deal. Given national political uncertainties around devolution deals the risk had increased to reflect the question mark of the Northern Powerhouse and Metro Mayors. Mitigating actions had been identified and their effectiveness will be reviewed during the quarter 3 challenge.

The Chair asked members opinion on the new format for reporting updates on strategic risks. It was reported that discussions were still on-going regarding options and timings for meetings in 2017/18 and an option may be to link reporting risks in conjunction with performance reports. Options were under discussion but it was clear there was a need to avoid duplication.

A query was made in relation to how other Council's report their strategic risks and whether a benchmarking exercise would be useful. It was reported that most Authorities were similar but it was noted that within the NHS, a triangulation method was used which had proved to alleviate repetition. An opinion was sought from

Internal Audit on this type of reporting. In response, it was stated that this method may improve focus but Committee should be mindful not to lose its role over risk assessments. The Committee's interest in this area had led directly to improvements in risk management across services.

RESOLVED that the report and the proposed addition of a Strategic Risk around cyber threats.

#### 42 INTERNAL AUDIT REPORT FOR PERIOD: AUGUST 2016 TO DECEMBER 2016

The Head of Internal Audit presented a report which provided an update on the work carried out by Internal Audit for the period August to December 2016, shown in the context of the audit plan for the year. The report also included performance information and details on the implementation of internal audit recommendations.

A summary of the main points from each of key areas were provided within paragraphs 4 to 14 of the report.

As there were no amendments or additions to the report, Members were afforded the opportunity to make comments and ask questions. A comment was made about the Council not spending all voluntary sector grants and a question raised about outcomes of this work. More information was also asked about the Adult Education Board investigation highlighted at page 54 of the report. It was recalled that Members had flagged up issues around the Voluntary Sector Funding and a report could be provided to Members on this issue as required. In relation to the Adult Education Board, this had been raised as a specific issue as anomalies had been identified by the Service Manager with regard to claims that the training had not been provided although a claim for payment had been submitted by the training provider. It was reported that negotiations were on-going to reach a satisfactory settlement.

A member raised an issue with regard to ICT equipment and the apparent lack of control of an inventory. It was reported that an inventory in some cases was not as complete as the ICT service would like it to be and when the Council were subjected to the power surge the inventory was found to be unsatisfactory. However, there had been a lot of work carried out in relation to laptop utilisation and it was envisaged this would be extended for other devices used by Council staff.

A query was raised with regard to non-major outstanding recommendations highlighted at page 45 of the report and whether it was thought these were still outstanding. In response, it was reported that there were around 100 outstanding but this needed to be seen in the context of these issues being a low level risk category and the Council were not exposed to significant risk. It was also noted that further discussions were scheduled to take place on the issues within the next few weeks with Directors and members would be updated on the outcomes.

With regard to Procure to Pay and confirmation orders, it was asked whether there was anything else the Council needed to do with regard to this process. It was reported that the procedure followed was working effectively and a reduction in confirmation order numbers was achieved. Members were advised that details could be provided within the Annual audit report.

The Chair asked what responses had been received from management in relation to Aiming High Processes and Systems Audit highlighted on page 44 of the report. In

response, it was stated that this issue had been raised by new leadership which had resulted in immediate actions in change of responsibilities. It was noted that Internal Audit felt comfortable with the actions on this matter. It was hoped that this issue would have been resolved by December but it was advised there would be more time required to address certain issues. Although concern had been raised, it was pleasing to see that immediate action had been taken.

RESOLVED that:-

- (1) the minor changes to the original audit plan be noted;
- (2) the internal audit work completed within the period be noted;
- (3) the progress made by officers in implementing previous audit recommendations be noted; and
- (4) the information relating to Internal Audit's performance in the period be noted.

#### 43 EXTERNAL AUDITORS (KPMG) ACTION PLAN 2016/17

The Committee received a report which presented the programme of work to be undertaken by KPMG in order to deliver their Code of Audit Practice audit which will cover work on the financial statements and the value for money conclusion for the 2016/17 financial year. Attached to the report at Appendix 1, was KPMG's plan for completing the review of the Council's Financial Statements and associated disclosure notes and providing an audit opinion on the Council's 2016/17 Statement of Accounts.

The report identified that there were no significant changes to the accounting standards and financial reporting framework in 2016/17 and based on initial planning work, KPMG had identified two significant risks for the audit which were as follows:-

- Significant changes in the pension liability due to LGPS Triennial Valuation; and
- The valuation of Property, Plant and Equipment.

It was also reported that they had also identified one significant VfM risk which was the Children's Services Trust Overspend. Further details regarding this issue were highlighted on page 11 of the Audit Plan.

Members were advised that the main year end audit was currently planned to commence on 4<sup>th</sup> July, 2017. An interim visit was scheduled to commence on 27<sup>th</sup> February 2017 when KPMG will evaluate and test controls over key financial system identified as part of our risk assessment; review the work undertaken by the internal audit function on controls relevant to our risk assessment; review the accounts production process and review progress on critical accounting matters.

Following the introduction of the report, Members were afforded the opportunity to make comments and ask questions. The Chair asked whether KPMG would be providing a report to Audit Committee once they had completed their review of the Children's Trust risk. It was reported that once meetings had been organised, if there were any significant issues to be flagged up then these could be reported immediately

to Members. Otherwise details of the review would be reported to Committee in July, 2017.

With regard to Elector Challenge, it was asked how many of these would be received. It was reported that this was difficult to estimate as for Doncaster recently they had been few and far between, although there could be 2 to 3 in the same year. It was also noted that they were usually the same individuals that raise the challenge.

Details were provided to Members on how the figure in relation to materiality had been reached. Discussion also took place in relation to pension liability and triennial valuation. Further details with regard to the roles of South Yorkshire Pensions Authority and actuaries in relation to liabilities were presented to members.

RESOLVED that the content of KPMG's Audit Plan 2016/17 be noted.

44 Arrangements and Timetable for Preparation of Accounts 2016/17

The Committee considered a report which provided details of the audit plan and timetable for producing the 2016/17 Statement of Accounts. The statutory deadlines for producing the draft accounts and the approved audited accounts were set out in regulation and were currently 30th June to 30th September respectively.

It was advised that the Accounts and Audit Regulations 2015 bring forward the timetable for the preparation and approval of the 2017/18 draft accounts to 31<sup>st</sup> May and an audit deadline of 31<sup>st</sup> July. The Government believes that this change will reduce the burden of the closure process, enabling finance staff to give more to in-year financial management.

Members were advised that the Council will quicken the production and subsequent publishing of the draft and audited accounts over this year and the following year to meet these future timescales. It is the intention for the draft accounts for 2016/17 to be certified and published by 31<sup>st</sup> May with the audited accounts to be finalised and published by 27<sup>th</sup> July.

It was reported to the Committee that there hadn't been the same level of interest from the public with regard to the accounts. A lot more information was now made available to the Public on an on-going basis through the publication of transactions as required for the transparency agenda.

RESOLVED the arrangements being put in place to close down future years' accounts and the draft timetable to meet the revised deadlines for 2016/17 be noted.

45 DONCASTER COUNCIL GOVERNANCE PLAN 2017 AND UPDATE ON ACTIONS FROM PREVIOUS YEARS.

The Committee received an update report on the actions from previous years with regard to the Doncaster Council Governance Plan 2017. It was reported that the Annual Audit Letter 2015/16 identified one priority, two rated risk recommendation in relation to the Waste Management PFI Contract. It was noted that KPMG had recommended that this asset be re-valued at the earliest opportunity and recognised at its up to date value on the 2016/17 financial statements in line with the

requirements of the code and this activity be included in the Governance Plan 2017 as recommendation 6 (R6).

Members were advised that the Governance Plan had been incorporated into the Council's Corporate Plan in order to improve the efficiency and effectiveness of managing performance and assessing progress. It was reported that since the last Audit Committee meeting the following recommendations had been implemented:-

- R4 – Medium term financial planning. The authority should ensure that it develops savings plans to meet the full budget gap of £109m identified for financial years up to 2016/17;
- R5 – Digital Region Limited. The Authority should ensure it has appropriate arrangements in place to manage the closure of Digital Region Limited and to minimise the financial impact on the Authority.

The Committee were also advised that the Governance Plan for 2017 included:-

- Issues raised by the Governance Group that contribute to the effective delivery of the Council's Corporate Plan priorities shown at Appendix A as R1-R3;
- Recommendations arising from the Annual Audit Letters provided by KPMG. Currently there were only three recommendations included from previous Annual Audit Letters which were from the 2013/14 Annual Audit Letter and were shown at Appendix 1 as R6;
- One recommendation arising from the Annual Audit Letter 2015/16 shown at Appendix 1 as R6;
- Updates on progress made against the improvement issues identified in the Annual Governance Statement shown at Appendix B as R7; and
- Any relevant updates on the Council's Internal Audit Governance Strategy Action Plan of which there were none.

The Chair requested that the hard work carried out on the issue that had arisen relating to the European funding of the White Rose Way development scheme which had resulted in the objection being withdrawn be noted and the hard work of the officers involved be recognised.

An update was requested with regard to partnerships identified at page 93 of the report particularly in relation to the number of actions taken. It was reported that there was still quite a bit of work to be carried out in relation to partnerships and it was anticipated that a report would be submitted to Directors and Audit Committee shortly. Members were advised that the process of defining partnerships had been carried out. As a result 82 partnerships had been defined. It was noted that the Council were keen to see where they were sighted within the partnerships activities. It was reported that through the work carried out some anomalies had been identified which need to be ironed out which will strengthen the Council's arrangements.

Members noted that with regard to the Waste Management PFI Contract highlighted at page 97 of the report, there was no clear date for re-evaluation. It was reported that an update would be sought from Rotherham and a response would be confirmed to Members through the accounts closedown process.



The Chair sought an update on completion date for improvement for Learning Disability/Supported Living Reviews. In response, it was noted that there was an on-going review of this issue and it was due to be completed by the end of February, 2017, confirmation of this would be contained within the report at the next Audit Committee.

RESOLVED that the progress made in relation to the activities and progress in taking forward the Governance Plan for 2017 be noted; in particular the following activities that had now been completed and be removed from the Governance Plan:-

- R4 – Medium term financial Planning. The authority should ensure that it develops savings plans to meet the full budget gap of £109m identified for financial years up to 2016/17; and
- R5 – Digital Region Limited. The authority should ensure it had appropriate arrangements in place to manage the closure of Digital Region Limited and to minimise the financial impact on the Authority.

#### 46 INCOME MANAGEMENT PROGRESS REPORT.

Further to the request from Members at the August 2016 meeting, the Committee received an update report on the Income Management Project. The report provided an update on progress made to date, current on-going projects and future plans.

It was reported that Income Management reviews had been undertaken in key risk areas which commenced in December 2015 and since that date had resulted in:

- the identification and billing of £190k of additional income;
- £66k of outstanding doubtful debt having being recovered through pro-active debt collection; and
- Systems and processes had been improved to ensure that billing take place for all goods and services provided details of which are included in Appendix B.

It was noted that further reviews were planned and these were detailed at Appendix C to the report. Members were advised that a report would be submitted to the Management Team once the review of all the services is complete.

It was queried whether any benefits could be gained from a benchmarking exercise on the Council's fees and charges. It was reported that whilst a benchmarking exercise could prove useful, fees and charges setting and principles were included within the budget process. It was noted that discussions do take place with the Executive on an on-going basis and commercial opportunities were discussed.

Members requested that once the review had been completed they be informed of progress.

The Chair asked that from what had been learnt from the process so far, had any training requirements be identified and fed into the programme particularly with regard to markets. In response, it was reported that in relation to markets, extensive manual intervention had been carried out to solve the issues. Members were advised that there had been training provided by the Debtors team to ensure staff know how to use

the system. It was reported that vast improvements had been made and the information was being used in a much better way. With regard to Markets, Members noted the improvements that had been made and appreciated the difficulties with regard to billing. It was requested that further update be provided to them on the Markets at a future meeting.

RESOLVED that the progress and future plans of the Income Management Project be noted and an further update be provided to Committee once the review of all services was complete.

CHAIR: \_\_\_\_\_

DATE: \_\_\_\_\_