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Rutland County Council

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Minutes of the **MEETING of the AUDIT AND RISK COMMITTEE** held in the Council Chamber, Catmose on Tuesday, 11th July, 2017 at 7.00 pm

PRESENT: Miss G Waller (Chairman) Mrs J Fox
Mr J Lammie (Vice-Chair) Miss R Burkitt
Mr N Begy Mr G Conde
Mr O Bird (substitute for Mr M Oxley)

APOLOGIES: Mr M Oxley
Mr Mike Norman KPMG

OFFICERS PRESENT: Ms Debbie Mogg Director for Resources
Mr Saverio Della Rocca Assistant Director - Finance
Miss Rachel Ashley-Caunt Head of Internal Audit
Mrs Kelly Epps Internal Audit Manager
Mrs Kim Cross Corporate Support Officer

139 MINUTES

The minutes of the Audit and Risk Committee held on 25th April 2017 were confirmed and signed by the Chairman.

140 MATTERS ARISING

There were no matters arising.

141 DECLARATIONS OF INTEREST

There were no Declarations of Interest in respect of items on the agenda.

142 PETITIONS, DEPUTATIONS AND QUESTIONS

No Petitions, Deputations or Questions had been received from members of the public.

143 TERMS OF REFERENCE

The committee **NOTED** the Terms of Reference, number of places and voting places, membership and dates of meetings of the Audit & Risk Committee.

2017-2018 Meetings

19 September 2017 (Statement of Accounts)

30 January 2018

24 April 2018

144 **EXTERNAL AUDIT UPDATE**

The Committee received a written update from KPMG LLP, the external auditors.

The interim audit was carried out in April 2017 and there were no matters of concern that needed to be reported to the Committee. The work included a short review by the IT audit colleagues of the Council's arrangements for migrating data during its 2016/17 Agresso upgrade. There were no specific findings from that assessment that needed to be brought to the Committee's attention.

KPMG's work over the coming quarter would include:

- ongoing liaison with finance staff and Internal Audit and further meetings with senior officers as part of the audit process to better understand the current and longer term issues that the council is addressing;
- starting the final accounts audits, which would start 17 July 2017; and
- revisiting the Value For Money (VFM) conclusion risk assessment and forming a VFM conclusion for 2016/17.
- The results of the audit would be reported to the 19 September 2017 Audit and Risk Committee.

KPMG had confirmed the arrangements for the certification of this year's Housing Benefits claim and the testing was in progress. There were no matters arising from the work carried out to date that needed to be brought to the Committee's attention.

No non-audit work had been carried out at the Council since the Committee's last meeting.

RESOLVED

The Committee **NOTED** the contents of the written External Audit Update.

145 **ANNUAL REPORT OF AUDIT & RISK COMMITTEE**

Report No. 125/2017 was received from Mr Della Rocca. The purpose of the report was to set out the work of the Committee in an annual report in line with best practice.

The effectiveness review was undertaken in 2016 and based on the results it was proposed that the review would be completed again in 2018 in conjunction with the new chair of the committee.

RESOLVED

The Committee **APPROVED** the annual report of the Audit & Risk Committee.

146 **ANNUAL GOVERNANCE STATEMENT**

Report No. 122/2017 was received from Ms Mogg. The purpose of the report was to meet the statutory requirement for the Council to approve an Annual Government Statement (AGS) for inclusion in its published Statement of Accounts (SoA) for

2016/17 and to update the Committee on changes made to the AGS following the Audit & Risk Committee comments in April 2017.

Following the Audit & Risk Committee feedback at the meeting on 25 April 2017 the following sections had been updated:

- Political balance
- Rutland Together
- Head of Internal Audit opinion
- Financial Performance
- Corporate Performance
- Business Continuity
- Joint Safety Committee
- Assurance Statements
- Public Service Network Compliance (PSN)

The AGS would not be finalised until September and the committee were reminded there would be time to make any changes pertinent to the statement.

During the discussion the following points were noted:

- I. The white paper on the Poverty Review was not presented to Council in June and the AGS would be updated to reflect the schedule change.
- II. A query was raised by Cllr Begy regarding the meaning of the term “sustainable growth”
- III. Ms Mogg confirmed that the Joint Safety Committee was included in the programme of meetings for 2017/18

RESOLVED

The Committee **NOTED** the updates made to the (AGS)

147 STRATEGIC RISK REGISTER

Report No. 127/2017 was received from Ms Mogg. The purpose of the report was to provide assurance to the Committee that the strategic risks were being adequately managed.

During the discussion the following points were noted:

- I. Ms Mogg confirmed the Strategic Risk Register was in risk rating order.
- II. The Strategic Risk Register was a standing item on the Senior Management Team (SMT) agenda and reviewed regularly.
- III. It was agreed that future risk registers would contain a clear explanation of the inherent to residual graph and its meaning.
- IV. Ms Mogg clarified some details in the register including that alternative options in respect of supplier failure were considered as part of procurement arrangements, and that Officer’s understanding is that school staff did receive

training on safeguarding issues and this was considered in OFSTED inspections.

- V. Concern was raised that the feasibility study due to be undertaken for Oakham Hub One Public Estate did not mention the Sustainability and Transformation Plan (STP) implementation, its impact and the lack of financial details and sustainability which had not been forthcoming, however the Committee were satisfied the current risk rating adequately reflected the current risk and acknowledged it would change in future as further details emerged. Ms Mogg agreed to refer Members concerns to Dr O'Neill – Director for People.

RESOLVED

The Committee **NOTED** the contents of the Risk Register and the actions underway to address risks.

148 INTERNAL AUDIT ANNUAL REPORT

Report No. 124/2017 was received from Miss Ashley-Caunt. The purpose of the report was to provide the Committee with the Head of Internal Audit's Assurance Opinion for 2016/17 and the Annual Report detailing the basis for the opinion, for review and approval.

During discussion the following points were noted:

- I. Ms Mogg gave an update on IT Disaster Recovery & Business Continuity, confirming the Council now has a fully operational site replication on servers at Oakham Enterprise Park (OEP), and further clarified that some IT systems the Council use are also externally hosted off site.
- II. Members asked for clarification that data would be secure; Ms Mogg confirmed assurance would be given annually when the Council meet Public Sector Network (PSN) compliance.
- III. Mr Begy sought clarification that the Council were prepared for the Data Protection Law Changing in May 2018. Ms Mogg confirmed she is in the early stages of assessing what was required and that any changes required would be in place by May 2018.

RESOLVED

The Committee **APPROVED** the Annual Internal Audit Report and Assurance Opinion for 2016/17.

149 INTERNAL AUDIT CHARTER 2017/18

Report No. 123/2017 was received from Miss Ashley-Caunt. The purpose of the report was to provide the Committee with the revised Internal Audit Charter and Strategy for annual review and approval.

During discussion the following points were noted:

- I. The Committee agreed that the changes proposed to the Internal Audit Charter would make it more transparent and they would be more assured.

RESOLVED

The Committee **APPROVED** the Internal Audit Charter and Strategy.

150 REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) UPDATE

The Committee received a verbal update from Ms Mogg. Ms Mogg confirmed there had been no incidents where RIPA had been used.

151 ANY OTHER URGENT BUSINESS

The Chair confirmed the next training session would take place 30 minutes before the meeting of the Committee in January.

The Chair proposed an extra meeting of the Committee in August to receive a report on the Children's Centre Project along with an update from Internal Audit on the Highways Maintenance review, if possible, meeting date to be confirmed.

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The Chairman declared the meeting closed at 8.01pm.

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Rutland County Council

Audit and Risk Committee 11 July 2017

External Update

The main points for the Committee's attention are:

- We presented the 2016/17 audit plan to the January 2017 meeting and updated the Committee on progress at its April 2017 meeting. We have continued to liaise with management on the significant financial and operational issues at the Council. There are no changes to the significant audit risks report in our audit plan.
- The interim audit was carried out at in April 2017 and there are no matters of concern that we need to report to the Committee. Our work included a short review by our IT audit colleagues of the Council's arrangements for migrating data during its 2016/17 Agresso upgrade. There are no specific findings from that assessment that we need to bring to the Committee's attention.
- Our work over the coming quarter will include:
 - ongoing liaison with finance staff and Internal Audit and further meetings with senior officers as part of the audit process to better understand the current and longer term issues that the council is addressing;
 - starting our final accounts audits, which is planned to start 17 July 2017; and
 - revisiting our VFM conclusion risk assessment and forming our VFM conclusion for 2016/17.
- The results of our audit will be reported to the 19 September 2017 Audit and Risk Committee.

Grant Claims

We have confirmed the arrangements for the certification of this year's Housing Benefits claim and the testing is in progress. There are no matters arising from the work carried out to date that we need to bring to the Committee's attention.

Other work

No non-audit work has been carried out at the Council since the Committee's last meeting.

Technical update

We have included at Appendix 1 to this update a technical update on recent relevant reports and publications by National Audit Office, CIPFA and other bodies.

Appendix 1: Technical Update

Procurement of Audit Services

Public Sector Audit Appointments Ltd (PSAA) announced on 20 June 2017 the results of this process which will see the award of the following contracts:

Lot 1 (value: approx. £14.4 million per audit year) awarded to Grant Thornton LLP;
Lot 2 (value: approx. £10.9 million per audit year) awarded to EY LLP;
Lot 3 (value: approx. £6.6 million per audit year) awarded to Mazars LLP;
Lot 4 (value: approx. £2.2 million per audit year) awarded to BDO LLP;
Lot 5 (value: approx. £2.2 million per audit year) awarded to Deloitte LLP; and
Lot 6 (value not pre-determined) awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

These contracts will cover a five year period commencing with the audit of accounts for 2018/19. PSAA has an option to extend the contracts for a further two year period, to a total of seven years, if it chooses to do so. PSAA has yet to inform Councils which Lot they are in and who their auditor will be.

KPMG is obviously disappointed to not be able to continue as the Council's external auditor beyond the audit of the 2017/18 accounts but we can assure the Committee that we will continue to be focused on delivering the current and next year's audit to the required quality standards.

PSAA's press release can be found at the following link:

<http://www.psaa.co.uk/press-release-procurement-of-audit-services-delivers-outstanding-results/>

Building Financial Resilience

The Chartered Institute for Public Finance and Accountancy (CIPFA) is calling on councils to watch for five warning signs of financial stress and to build resilience into all aspects of planning and operations, with the launch of its new report *Building Financial Resilience*.

Local government financial pressures are mounting, and CIPFA's snapshot survey of English local authority chief financial officer confidence to deliver public services revealed serious spending pressures. Through its work with council financial teams, CIPFA has identified five key symptoms of financial stress:

A rapid decline in reserves – using reserves to avoid cuts will only provide temporary relief

A failure to plan and deliver savings in service provision, so that councils are not living within their resources

Shortening of medium-term financial planning – a failure to plan ahead could indicate a lack of strategic thinking and an unwillingness to confront tough decisions

Firm objectives missing from savings plan, such as a saving plan with 'still to be found' gaps or consisting of targets rather than robust plans; this may also include a tendency for over optimism in timing and scale of savings

Tendency for unplanned overspends – carrying forward undelivered savings into the following year only creates the need for greater cuts in subsequent years.

CIPFA's report identifies the warning signs and outlines the steps towards building better financial resilience.

Financial resilience is about a council planning appropriately for the future and protecting itself against unexpected shocks. CIPFA is working with councils to ensure they have four of essential ingredients to resilience in place:

- Ensuring the right financial management systems are working effectively. Everyone from the CFO and senior management team to the political leadership must understand the financial strategy and have a clear appreciation of the financial position.
- Effective use of benchmarking data, including comparing costs, income and activity levels with similar authorities.
- A single, consolidated document that tracks its saving plans, including what has been agreed and how much progress has been made.
- Managing reserves effectively.

CIPFA's full report can be found at the following link:

<http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-signals-five-warning-signs-of-council-financial-stress>

Protecting information across Government

This May 2017 report highlights some issues relevant in light of the malware cyber-attack on 12 May. It sets out the increasingly complex challenge of protecting information while re-designing public services and introducing the technology necessary to support them.

According to the NAO, too many bodies with overlapping responsibilities operate in the centre of government, confusing departments about where to go for advice. As accountability for information security is devolved to departments, government does not currently collect or analyse its overall performance in protecting information on a routine basis. This means it has little visibility of information risks in each department and has limited oversight of the progress departments are making to better protect their information. Reporting personal data breaches is chaotic, with different mechanisms making departmental comparisons meaningless. In addition, the Cabinet Office does not have access to robust expenditure and benefits data from departments, in part because they do not always collect or share such data. Some departments have made significant improvements in information governance, but most have not given it the same attention as other forms of governance. In the context of a challenging national picture it has been difficult for government to attract people with the right skills.

According to the NAO, the Cabinet Office is taking action to improve its support for departments, but needs to set out how this will be delivered in practice.

The report can be found at the following link:

<https://www.nao.org.uk/report/protecting-information-across-government/>

Online Fraud

According to this June 2017 NAO report Fraud is the most commonly experienced crime in England and Wales and most happens online. While the landscape for tackling online fraud is complex, the Home Office's response is not, according to the NAO, proportionate to the threat. Although the face of crime is changing, police forces take different approaches to tackling online fraud and for some it is not a priority.

According to the NAO, the Joint Fraud Taskforce, led by Home Office Ministers, is a positive step. The Department, through the Taskforce, is seeking to raise awareness of online fraud, reduce card not present fraud and to return money to fraud victims. The Department faces though a challenge in influencing other partners such as banks and law enforcement bodies to take on responsibility for preventing and reducing fraud.

In addition, without accurate data, the Department does not know whether its response is sufficient or adequate. Not only is online fraud under-reported, but where data is available, there is a lack of sharing of information between government, industry and law enforcement agencies. There is, for example, no formal requirement for banks to report fraud or share reports with government.

Measuring the impact of campaigns and the contribution government makes to improving online behaviours is challenging. The growing scale of online fraud suggests that many people are still not aware of the risks and that there is much to do to change behaviour.

The NAO found the protection banks provide varies, with some investing more than others in educating customers and improving their anti-fraud technology. The ways banks work together in responding to scams also needs to improve.

The report found there is no clear mechanism for identifying, developing and sharing good practice to prevent people becoming victims. The nature of online fraud makes it difficult to pursue and prosecute criminals. In addition, there is a lack of data on how many fraudsters are prosecuted and judicial outcomes for fraud offences. The NAO found that stakeholders had mixed views on the adequacy of current legislation. The international and hidden nature of online fraud makes it difficult to pursue and prosecute criminals because of the need for international cooperation and an ability to take action across borders.

The full report can be found at the following link:

<https://www.nao.org.uk/report/online-fraud/>

Progress in setting up combined authorities

DCLG worked speedily to make sure combined authority areas were ready for the mayoral elections in May 2017, according to the NAO in this July 2017 report.

The introduction of combined authorities, however, has meant that inherently complex structures have been added to England's already complicated local government arrangements. The evidence that investment, decision-making and oversight at this sub national level is linked to improved local economic outcomes is mixed and inconclusive. The NAO finds that there is a risk that local councillors will have limited capacity for the overview and scrutiny of combined authorities. Furthermore, in May 2017, six mayors were elected to combined authorities in England, with candidates having campaigned on manifestos which frequently made policy commitments beyond the current remits of these organisations. NAO says that this raises the question of whether mayors can be credible local advocates if they only deal with the limited issues under the remit.

Combined authorities are not uniform, and vary in the extent of the devolution deals they have struck with government. The combined authority with the greatest degree of devolution, Greater Manchester, has now absorbed control over the office of the police and crime commissioner and fire and rescue services. Others are currently primarily focused on transport issues, as well as housing and regeneration.

If the United Kingdom's departure from the European Union (EU) results in reductions in regional funding, the economic regeneration role of combined authorities would become more pressing. Combined authorities are generally in areas which receive the most EU funding.

A number of authorities have been unable to bring local authorities together to establish combined authorities, while areas with a long history of working together have often found it most straightforward to establish combined authorities. The capacity of most combined authorities is currently limited and the lack of geographical coherence between most combined authorities and other providers of public services could make it more problematic to devolve more public services in the future.

Among the NAO's recommendations is that the Department should continue to work with combined authorities to develop their plans for assessing their impact, including demonstrating the value they add.

The full report can found at the following link:

<https://www.nao.org.uk/report/progress-in-setting-up-combined-authorities/>

Reality Check: Next steps in developing Sustainability and Transformation Plans

The NHS planning guidance set out the notion of Sustainability and Transformation Plans (STPs) in 2015. The plans aimed to bring together local leaders in health, local government and patient representation to plan how services would become sustainable between 2016 and 2021. The 44 STPs which form the basis for NHS planning in the coming years, and explicitly link it to social care, are all now public in their draft forms.

In this May 2017 'Insight' report CIPFA concludes that the success of the STPs is reliant on realistic plans that set out appropriate actions, while fostering a culture of genuine sharing and working together. In its assessment of the 44 draft STP plans, CIPFA says that while in principle STPs represent a positive, place-based step forward, the timescales and speed of savings required have led to a number of 'business as usual' propositions, rather than the development of the concrete, transformational changes needed to deliver financial sustainability in the long term.

If STPs are going to have a meaningful impact on what CIPFA estimates to be a £10bn funding gap by 2020/21, CIPFA says there must be adequate upfront investment; robust governance arrangements; and thorough contingency planning, with realistic assessments of alternative scenarios.

CIPFA's report can be found at the following link:

<http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/sustainability-of-the-nhs-is-reliant-on-upfront-investment,-robust-governance-and-awareness-of-risk>