

Audit and Standards Committee

Thursday 18 April 2019 at 5.00 pm

**To be held at the Town Hall, Pinstone
Street, Sheffield, S1 2HH**

The Press and Public are Welcome to Attend

Membership

Councillors Josie Paszek (Chair), Simon Clement-Jones (Deputy Chair),
Dianne Hurst, Alan Law, Pat Midgley, Mohammed Mahroof and Martin Phipps.

Independent Co-opted Members

Liz Stanley and Lynda Hinxman.

PUBLIC ACCESS TO THE MEETING

The Audit and Standards Committee oversees and assesses the Council's risk management, control and corporate governance arrangements and advises the Council on the adequacy and effectiveness of these arrangements. The Committee has delegated powers to approve the Council's Statement of Accounts and consider the Annual Letter from the External Auditor.

The Committee is also responsible for promoting high standards of conduct by Councillors and co-opted members.

A copy of the agenda and reports is available on the Council's website at <http://democracy.sheffield.gov.uk>. You can also see the reports to be discussed at the meeting if you call at the First Point Reception, Town Hall, Pinstone Street entrance. The Reception is open between 9.00 am and 5.00 pm, Monday to Thursday and between 9.00 am and 4.45 pm. on Friday. You may not be allowed to see some reports because they contain confidential information.

Recording is allowed at meetings of the Committee under the direction of the Chair of the meeting. Please see the website or contact Democratic Services for details of the Council's protocol on audio/visual recording and photography at council meetings.

If you require any further information please contact Sarah Cottam in Democratic Services on 0114 273 5033 or email sarah.cottam@sheffield.gov.uk.

FACILITIES

There are public toilets available, with wheelchair access, on the ground floor of the Town Hall. Induction loop facilities are available in meeting rooms.

Access for people with mobility difficulties can be obtained through the ramp on the side to the main Town Hall entrance.

**AUDIT AND STANDARDS COMMITTEE AGENDA
18 APRIL 2019**

Order of Business

- 1. Welcome and Housekeeping Arrangements**
- 2. Apologies for Absence**
- 3. Exclusion of the Press and Public**
To identify items where resolutions may be moved to exclude the press and public.
- 4. Declarations of Interest** (Pages 1 - 4)
Members to declare any interests they have in the business to be considered at the meeting.
- 5. Minutes of Previous Meeting** (Pages 5 - 8)
To approve the minutes of the meeting of the Committee held on 24 January 2019.
- 6. Internal Audit Tactical Plan 2019/20** (Pages 9 - 36)
Report of the Senior Finance Manager (Internal Audit)
- 7. Compliance with International Auditing Standards** (Pages 37 - 50)
Report of the Head of Strategic Finance
- 8. Audit Planning Review** (Pages 51 - 90)
Report of Ernst and Young.
- 9. Work Programme** (Pages 91 - 92)
Report of the Director of Legal and Governance.
- 10. Dates of Future Meetings**
To note that meetings of the Committee will be held at 5.00 p.m. on:-
 - 13 June 2019
 - 25 July 2019

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ADVICE TO MEMBERS ON DECLARING INTERESTS AT MEETINGS

If you are present at a meeting of the Council, of its executive or any committee of the executive, or of any committee, sub-committee, joint committee, or joint sub-committee of the authority, and you have a **Disclosable Pecuniary Interest (DPI)** relating to any business that will be considered at the meeting, you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your Disclosable Pecuniary Interest during the meeting, participate further in any discussion of the business, or
- participate in any vote or further vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

You **must**:

- leave the room (in accordance with the Members' Code of Conduct)
- make a verbal declaration of the existence and nature of any DPI at any meeting at which you are present at which an item of business which affects or relates to the subject matter of that interest is under consideration, at or before the consideration of the item of business or as soon as the interest becomes apparent.
- declare it to the meeting and notify the Council's Monitoring Officer within 28 days, if the DPI is not already registered.

If you have any of the following pecuniary interests, they are your **disclosable pecuniary interests** under the new national rules. You have a pecuniary interest if you, or your spouse or civil partner, have a pecuniary interest.

- Any employment, office, trade, profession or vocation carried on for profit or gain, which you, or your spouse or civil partner undertakes.
- Any payment or provision of any other financial benefit (other than from your council or authority) made or provided within the relevant period* in respect of any expenses incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

*The relevant period is the 12 months ending on the day when you tell the Monitoring Officer about your disclosable pecuniary interests.

- Any contract which is made between you, or your spouse or your civil partner (or a body in which you, or your spouse or your civil partner, has a beneficial interest) and your council or authority –
 - under which goods or services are to be provided or works are to be executed; and
 - which has not been fully discharged.

- Any beneficial interest in land which you, or your spouse or your civil partner, have and which is within the area of your council or authority.
- Any licence (alone or jointly with others) which you, or your spouse or your civil partner, holds to occupy land in the area of your council or authority for a month or longer.
- Any tenancy where (to your knowledge) –
 - the landlord is your council or authority; and
 - the tenant is a body in which you, or your spouse or your civil partner, has a beneficial interest.
- Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -
 - (a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and
 - (b) either -
 - the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or
 - if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

If you attend a meeting at which any item of business is to be considered and you are aware that you have a **personal interest** in the matter which does not amount to a DPI, you must make verbal declaration of the existence and nature of that interest at or before the consideration of the item of business or as soon as the interest becomes apparent. You should leave the room if your continued presence is incompatible with the 7 Principles of Public Life (selflessness; integrity; objectivity; accountability; openness; honesty; and leadership).

You have a personal interest where –

- a decision in relation to that business might reasonably be regarded as affecting the well-being or financial standing (including interests in land and easements over land) of you or a member of your family or a person or an organisation with whom you have a close association to a greater extent than it would affect the majority of the Council Tax payers, ratepayers or inhabitants of the ward or electoral area for which you have been elected or otherwise of the Authority's administrative area, or
- it relates to or is likely to affect any of the interests that are defined as DPIs but are in respect of a member of your family (other than a partner) or a person with whom you have a close association.

Guidance on declarations of interest, incorporating regulations published by the Government in relation to Disclosable Pecuniary Interests, has been circulated to you previously.

You should identify any potential interest you may have relating to business to be considered at the meeting. This will help you and anyone that you ask for advice to fully consider all the circumstances before deciding what action you should take.

In certain circumstances the Council may grant a **dispensation** to permit a Member to take part in the business of the Authority even if the member has a Disclosable Pecuniary Interest relating to that business.

To obtain a dispensation, you must write to the Monitoring Officer at least 48 hours before the meeting in question, explaining why a dispensation is sought and desirable, and specifying the period of time for which it is sought. The Monitoring Officer may consult with the Independent Person or the Council's Audit and Standards Committee in relation to a request for dispensation.

Further advice can be obtained from Gillian Duckworth, Director of Legal and Governance on 0114 2734018 or email gillian.duckworth@sheffield.gov.uk.

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Audit and Standards Committee

Meeting held 24 January 2019

PRESENT: Councillors Josie Paszek (Chair), Simon Clement-Jones (Deputy Chair), Dianne Hurst, Alan Law, Mohammed Mahroof, and Martin Phipps

Co-Opted Member

Liz Stanley

Representing Ernst and Young

Michael Green

Steve Clark

Council Officers

Eugene Walker, Executive Director, Resources

Dave Phillips, Head of Strategic Finance

Kayleigh Inman, Senior Finance Manager, Internal Audit

Tim Hardie, Head of Commercial Business Development

Helen Molteno, Finance Manager, Internal Audit

Tim Sharp, Risk Advisor

1. APOLOGIES FOR ABSENCE

1.1 An apology for absence was received from Councillor Pat Midgley.

2. DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

3.1 The minutes of the previous meeting of the Committee held on 20 September 2018 were approved as a correct record.

4. PROGRESS ON HIGH OPINION AUDIT REPORTS

4.1 The Senior Finance Manager, Internal Audit, submitted a report providing an updated position on implementation of recommendations contained in audit reports issued with a high opinion or a limited/no assurance opinion and high organisational impact assessment.

4.2 Kayleigh Inman, Senior Finance Manager, Internal Audit, outlined the new approach to audit opinions and the new reporting arrangements to the Committee. Anything assessed as no assurance or limited assurance with a high organisational impact would be reported to the Committee. This would ensure Members were able to focus on the key issues affecting the Authority.

4.3 Kayleigh Inman reported that there were no new high opinion audits to report to the

Committee. In addition, no reports with a no assurance or limited assurance, high organisational impact had been issues since November 2018 when the approach to audit opinions changed. There were 4 ongoing critical recommendations included in the tracker report. One issue was in respect of Continuing Healthcare in Learning Disabilities. It was proposed that this item be removed from the tracker and scrutinised as part of the wider Continuing Healthcare review.

4.4 Executor Services had been included in the tracker for the first time within the last report to the Committee. However, all the recommendations had now been actioned and it was proposed that this be removed from the tracker. The report was submitted to the Executive Management Team in early January and they had noted that 37% of the actions were still ongoing but were pleased that actions were being taken/progress was being made.

4.5 Responding to a question from a Member in respect of issues with housing benefits, Kayleigh Inman commented that this could be an error with anything and was not necessarily in relation to the benefit calculation. This was monitored on a quarterly basis. She did not believe that this was a systemic control issue but would check back on the working papers and respond to Members.

4.6 In respect of a question from a Member regarding the processing of housing benefits being brought back in-house, Kayleigh Inman commented that this would be picked up in the planning for the Audit Plan.

4.7 **Resolved:** That:-

(a) the report, now submitted, be noted; and

(b) the following items be removed from the tracker:-

- Executor Services, People Services
- Continuing Health Care in Learning Disabilities, People Services
- Pro-Active Work – Declaration of Interests, Corporate
- Pro-Active Work, Staff Expense Claims, Corporate
- Resource Link Application Review, Resources

5. **UNIVERSAL CREDIT**

5.1 Tim Hardie, Head of Commercial Business Development, attended the meeting to provide an update on the latest position in respect of Universal Credit. He reported that Sheffield was one of the last cities to move to a full rollout in respect of Universal Credit. It was too early to say what the impact had been in Sheffield but lessons could be learnt from the impacts in other cities.

5.2 It was a challenge to the Council as the scheme was run by the Department for Work and Pensions (DWP) and the Council had to react to any issues arising from it. There had been a Universal Credit Partnership established including representatives from the DWP and the Voluntary Sector which was a good example of partnership working.

- 5.3 Mr Hardie added that one of the biggest challenges was that Universal Credit could only be applied for online and support needed to be provided in places such as job centres and libraries where people could access online services. Officers were compiling data and dashboards around key matrix of the impacts. It was hoped that this would be completed by now although this was still in progress.
- 5.4 Responding to a question from a Member regarding constituents' queries regarding issues with Universal Credit, Tim Hardie stated that it was important that Members were aware that any issues should be referred to the DWP or the Job Centre as there wasn't anything that the Council could do. Council tenants should, however, contact the Council if there had been delays caused by the rollout in paying rent. There was information on Universal Credit available on the Council's website. Rates of Council Housing evictions were being monitored and the Universal Credit Partnership was a good forum for monitoring food bank usage.
- 5.5 In response to a further question from a Member, Tim Hardie commented that the Partnership had mapped the level of digital support available. He acknowledged that certain parts of the City would have less coverage than others. He would circulate the mapping document to Members.
- 5.6 The Chair, Councillor Josie Paszek, commented that it was important to support those who were more vulnerable to criminal elements such as door to door money lenders. She requested that Tim Hardie clarify if the Credit Union was part of the Universal Credit partnership.
- 5.7 In conclusion, Tim Hardie stated that the impact of Universal Credit would be monitored over the next couple of months and he would report back to a future meeting of the Committee.
- 5.8 **Resolved:** That the presentation be noted and a further update be provided to a future meeting of the Committee.

6. EXCLUSION OF THE PRESS AND PUBLIC

- 6.1 **RESOLVED:** That the public and press be excluded from the meeting before discussion takes place on the following item of business (Strategic Risk Management) on the grounds that, if the public and press were present during the transaction of such business, there would be a disclosure to them of exempt information as described in paragraph 3 of Schedule 12A to the Local Government Act 1972, as amended.

7. STRATEGIC RISK MANAGEMENT

- 7.1 The Finance Manager (Internal Audit) and the Risk Advisor introduced a report and gave a presentation providing an assessment of the Council's current Risk Management arrangements and the measures implemented to further strengthen and improve them and the current and emerging risks, their impact on service delivery and the controls in place to manage them.
- 7.2 The Finance Manager, Internal Audit, Risk Advisor, Head of Strategic Finance and

the Executive Director, Resources responded to questions from Members of the Committee in relation to Cloud Based Technology, Adult Social Care, Academies and Business Rates.

7.3 **RESOLVED:** That the Committee:-

- (a) notes the current assessment of the Council's Risk Management arrangements and endorses the measures being taken to strengthen those arrangements;
- (b) notes the improving trends in management of risks; and
- (c) notes the current and emerging risks and endorses the actions being taken to mitigate those risks.

8. WORK PROGRAMME

8.1 The Director of Legal and Governance submitted a report providing details of an outline work programme for the Committee for the period January-July 2019.

8.2 **Resolved:-** That the Committee's work programme for the period January – July 2019 be approved subject to the inclusion of an additional item at the June meeting on Standards, including the Code of Conduct for Cabinet Members and the Lord Mayor, and the Standards Committee Annual Report be submitted to the July meeting of the Committee.

9. DATES OF FUTURE MEETINGS

- 9.1 It was noted that meetings of the Committee would be held at 5.00 p.m. on:-
- 21 March 2019 (additional meeting if required)
 - 18 April 2019
 - 13 June 2019
 - 25 July 2019



Audit and Standards Committee Report

Report of: Kayleigh Inman, Senior Finance Manager (Internal Audit)

Date: 18th April 2018

Subject: Internal Audit Tactical Plan 2019/20

Author of Report: Kayleigh Inman

Summary:

The report presents the Internal Audit planning methodology and programme of work for 2019/20.

Recommendations:

In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice (including PSIAS Standards) it is recommended that Members endorse the attached programme of work for 2019/20.

Background Papers:

Category of Report: Open

* Delete as appropriate

Statutory and Council Policy Checklist

Financial Implications
No Cleared by: Kayleigh Inman
Legal Implications
NO Cleared by:
Equality of Opportunity Implications
NO Cleared by:
Tackling Health Inequalities Implications
NO
Human rights Implications
NO:
Environmental and Sustainability implications
NO
Economic impact
NO
Community safety implications
NO
Human resources implications
NO
Property implications
NO
Area(s) affected
Corporate
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
NO

REPORT TO SHEFFIELD CITY COUNCIL AUDIT AND STANDARDS COMMITTEE 18th April 2019

Senior Finance Manager Report – 2019/20 Work Programme

Purpose of the Report

1. The purpose of this report is to present and communicate to members of the Audit and Standards Committee the internal audit plan for 2019/20.

Background

2. The strategy for Internal Audit is to focus on areas of high-risk activity in order to provide independent assurance that risk and internal control systems are being properly managed by Directors in service areas.
3. The plan has been developed to ensure sufficient coverage across the Council to inform the overall internal audit opinion, required as part of the Accounts and Audit Regulations. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.
4. Given the current and forecast volume of change for services across the Council, an allocation of internal audit resource has been re-assigned from assurance work to offer advice and guidance as change projects occur – we have entitled this **Internal Audit Business Partnering**. By reassigning some of the available resource, we are aiming to take a pro-active, supportive role to assist services in embedding change. It is vital that portfolios engage with Internal Audit to maximise the use of this resource.
5. The balance of assurance and business partnering work to be undertaken will be reviewed during the year and prior to each annual audit plan. Once major changes are embedded, it is expected that the levels of assurance work will increase, whilst the business partnering reduces.

Planning Methodology

6. In order to plan for the use of Internal Audit's resources, the approach is structured to give consideration to the following:
 - Utilisation of the corporate risk management process including the corporate risk register and portfolio risk management plans.
 - Utilisation of the information provided by Directors under the Annual Governance Statement (AGS) process.
 - Areas of highest perceived risk as determined by the Chief Executive/Executive Management Team (EMT)/Executive Director -

Resources/Director of Finance and Commercial Services/Heads of Service within Finance /Senior Finance Managers/ Finance Managers.

- Liaison with and learning from other Core Cities and more general best professional practice.
- The outcomes from the internal audit risk-scoring methodology.

Utilisation of the Corporate Risk Management Arrangements

7. The current risk management process requires service areas to consider risks and either manage and mitigate risks or escalate them up through a process to leadership teams and/or EMT. The information contained within the corporate risk register and portfolio/service risk management plans provide a broad range of risks facing the council and identifies risk controls, costs, escalation process etc. A number of the higher risk rating entries on the registers/risk management plans have been included in the audit plan.
8. Effective from January 2019, the risk management team was moved under the remit of the SFM Internal Audit. There is a close correlation between the work undertaken within the two areas and it is envisaged that closer collaborative working will inform both the scope and content of individual audit reviews and compliance checks regarding adherence to risk management processes.

Utilisation of the Annual Governance Statement

9. The process for collating information for the production of the AGS is managed by Legal and Governance. The AGS returns to which Directors submit and sign up to provide a wealth of information on how some of the most important internal control arrangements are managed within services. Finance Managers (Internal Audit) review this information when identifying areas for the audit plan. In addition Internal Audit will perform a review of the annual governance statement process to provide assurance that it operates effectively.

Structure of the Plan

10. The format of the tactical plan remains the same as last year, with sections for each portfolio (which includes the business partnering allocation), a section for corporate reviews and then resources dedicated to fraud investigation work and statutory main financial system reviews.
11. Each planned auditable area has been reviewed to determine which governance themes from the AGS will be covered within the scope. More than one theme may be included within the scope of a single audit. All

AGS themes are covered to varying degrees and this will help to support the internal audit opinion on the governance, risk and control environment which is provided to the Audit and Standards Committee annually in July.

Fraud Allegations (Re-active investigations)

12. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft and corruption. This has increased slightly due to the additional resources used in this area in 2018/19. Some investigations are carried out directly by Internal Audit and for others Internal Audit provides support to management for them to carry out their own reviews.

Pro-active Counter Fraud Work

13. The National Fraud Initiative (NFI), under the remit of the Cabinet Office, has grown in recent years and will probably continue to expand. It is no longer exclusively focused on housing benefit fraud, as new areas of scrutiny continue to be added e.g. most recently tenancy fraud and abuse of the blue badge scheme.
14. Internal Audit continues to administer the system and oversee the submission of data for the NFI. 2019/20 is primarily a data analysis year, with the data matches having been provided by the Cabinet Office in February 2019. Internal Audit will be ensuring all relevant services receive and understand the data matches made for their areas, and will monitor to ensure these are investigated where appropriate, with results recorded on the NFI System.
15. In addition to the above Internal Audit has six pieces of proactive fraud work planned. These reviews look at activities that are more susceptible, by the nature of what they encompass, to fraud. Internal Audit exam each activity's overall fraud risks to ensure that all of the areas of fraud have been identified. These exercises have been successful in identifying irregularities and weak/inconsistent controls and management arrangements.
16. The work on proactive fraud may subsequently lead to more specific case investigations. Flexibility is therefore required in the use of the fraud investigation resource. Nevertheless, in the event that the volume of fraud allegations increases or a large scale investigation becomes necessary, resources will be transferred from other areas of the internal audit plan.

17. In 2017/18 work began to refresh the fraud awareness e-learning course and this will be launched and added to the Sheffield Development Hub in the early part of 2019/20.

Main Financial Systems (MFS)

18. Internal Audit reviews the key financial systems of the Council every year, and this aspect of the work of Internal Audit is crucial in supporting the S151 officer responsibilities.
19. From April 2018, Internal Audit introduced a cyclical testing regime for the MFS reviews, which will involve a full system review in year 1 followed by transaction testing, which meets External Audit requirements, in year 2.
20. This year, further developments are being investigated to consider the feasibility and benefits of using data analytics to review large-scale data downloads from the key financial systems.

Risk Based Audits of Systems/Services/Functions in each Portfolio

21. The resource not utilised on the above elements is devoted to undertaking reviews of the areas of most perceived risk as identified by Internal Audit in consultation with key officers i.e. principally the Executive Director - Resources/Director of Finance and Commercial/Executive Directors and Directors.
22. At the beginning of each audit assignment the relevant Service Manager will also be consulted to ensure that current risk areas are included in the remit for the work.

Internal Audit Business Partnering

23. In 2018/19 an allocation of internal audit resource was re-assigned from assurance work to offer advice and guidance as change projects occur – we have entitled this **Internal Audit Business Partnering**. Given the continued level and scale of change for services across the Council, a similar allocation of resource has been included in the plan for 2019/20.
24. By reassigning some of the available resource, we are aiming to take a pro-active, supportive role to assist services in embedding change. It is vital that portfolios engage early with Internal Audit to maximise the use of this allocation. The Executive Management Team have endorsed the level of resource in the Business Partner allocation, and committed to make use of this resource pro-actively.

25. It is proposed that the allocation of resource dedicated to Internal Audit Business Partnering will be reviewed at the mid-year point to establish if this resource is being used effectively. If there is a significant remaining allocation at mid-year, consideration will be given to re-directing this back to the assurance audits from the first call list.

Summary of the Audit Plan

26. The following represents the summary of the planned audit time for the current year.

Auditable Area		Days	% of the total
Corporate Reviews		20	1
Place	Assurance	187	12
	Business Partnering	25	2
People	Assurance	363	24
	Business Partnering	37	2
Resources	Assurance	456	30
	Business Partnering	56	4
Main Financial Systems	Assurance	96	6
	Business Partnering	10	1
Investigations (*exc reactive allocation)		278	18
Total		1528	100%

Assessed Priority	Outputs
High Priority	63
Medium Priority	9
Low Priority	0
Statutory	12
Total	86

27. Attention is also drawn to the first call list (last page of the plan), which highlights the reviews identified during the planning process which will not be completed in 2019/20. Every effort has been made to add medium priority reviews (scoring less than 500) to the first call list, and maintain all the high priority reviews in the plan. There are 3 high priority reviews on first call however, for all of these there are service-based reasons why an audit review cannot be undertaken in 19/20.

28. The first call list is effectively the 18 month audit plan, as reviews included on first call will be considered for review in the early part of 20/21, assuming they are still relevant.
29. The 2019/20 annual plan is attached at Appendix 1.

Future Considerations

30. Throughout the coming year, Internal Audit will evaluate the plan to ensure we are directing internal audit resources at the main risks facing the authority.
31. It is recommended in the Public Sector Internal Audit Standards that any significant changes to the plan are also reported to the Audit and Standards Committee. As a result, Internal Audit have defined 'significant' as a 15% change to the audits ratified in the April 2018 meeting, and in the event of this level of change, will report to the November Committee.
32. Any reduction or redirection of the Internal Audit Business Partnering resource will also be reported to the Audit and Standards Committee.

FINANCIAL IMPLICATIONS

33. There are no direct financial implications arising from the report.

EQUAL OPPORTUNITIES IMPLICATIONS

34. There are no equal opportunities implications arising from the report.

CONCLUSION

35. The audit plan summarises a risk based programme of work which demonstrates that the Council has made provision to discharge its (and officers) statutory responsibilities.

RECOMMENDATION

36. In respect of the provision of the statutory internal audit function and in order to comply with best professional practice it is recommended that members endorse the attached programme of work for 2019/20.

**Overall Summary By Portfolio and Audit Type
2019/20**

Appendix 1

	Corporate*	Place	People	Resources**	Investigations	MFS	Total Days
Compliance Audits	20		10			96	126
Risk Based Audit		171	329	394	38		932
Business Partnering		25	37	56		10	128
School Control Risk Self Assessment			9				9
Application Reviews				60			60
Follow Up Audits		2	2	2			6
Project Management Reviews							0
Advisory					35		35
Investigations					115		115
Pro-active Fraud Reviews					90		90
Grant certification/account sign-off		14	13				27
Total Days	20	212	400	512	278	106	1528
No of audits	2	9	18	25	8	6	68
No of follow-up reviews		1	1	1			3
Grant certification/account sign-off		7	5				12
School visits/reports			3				3
Productive Outputs***	2	17	27	26	8	6	86

exc reactive

High Priority		8	18	23	8	6	63
Medium Priority	2	2	4	3			9
Low Priority							0
Statutory		7	5				12
Total Outputs	2	17	27	26	8	6	86

* Cross cutting reviews covering multiple Portfolios

** Includes Sheffield One and Policy, Performance and Communications

*** excludes Business Partnering

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	AGS	Portfolio RMP	CRR
Corporate							
	AGS - statement production	Compliance	Medium	Assurance that the controls in place on the production of the annual AGS statement are sound			
	AGS - quality reviews	Compliance	Medium	Assurance that the controls in place around the quality reviews of the AGS statement are sound			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	AGS	Portfolio RMP	CRR
Place Portfolio							
Portfolio-wide	Resource allocation to enable the provision of support and advice during the change processes.	Business Partnering	High	Allocation to be called upon by Place management on an ad-hoc basis			
	Place Change Programme	RBA	High	To provide assurance that the programme is being robustly managed as part of the SCC 2020 initiative. Consideration will be given to the Place Hub.			
City Growth							
	Lower Don Valley (LDV) Business Improvement District - Year 5 Levy	Grant certification / account sign off	Statutory	To provide assurance that open and transparent accounts are held for this business unit. Ensuring that money is used to pay for works and services as part of the Lower Don Valley Flood Defence Project.		479	
	Moor Market charges sign off	Grant certification / account sign off	Statutory	To provide assurance that the service charge has been calculated methodically and all costs included are legitimate and eligible for the Moor Market.			
	Crystal Peaks market charges sign off	Grant certification / account sign off	Statutory	To provide assurance that the service charge has been calculated methodically and all costs included are legitimate and eligible for the Crystal Peaks Market.			
	Local Authority Bus Subsidy Grant (BSOG)	Grant certification / account sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with. Grant to support bus services and provision of infrastructure. Required by 30.9.19.			
Transport, facilities, repairs & maintenance Service	HRM - Subcontractors	RBA	High	Assurance that the controls in place for the recruitment and management of subcontractors within the housing repairs service are sound.		645	

	Transport - Automation of Processes	RBA	Medium	A review of processes that are being automated as part of the Big Change system that is being introduced		604	
	Early Measures Air Quality - grant sign off	Grant certification / account sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with. Grant to support early measures activity on air quality.			
	National Productivity investment fund- grant sign off	Grant certification / account sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with. Grant to support road improvements in specific areas of Sheffield.			
Major Projects	Air Quality Strategy	RBA	High	To provide assurance that the SCC strategy to improve air quality is robust, co-ordinated and well-planned.			
	City Centre Regeneration Strategy	RBA	High	To provide assurance that the overarching strategy for the re-development of key city areas is being managed robustly. The scope will cover effective and clear links to other projects and partners.		368, 369 621	
	Joint Air Quality Unit Capital Grant sign-off	Grant certification / account sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with.			
Housing and Neighbourhood Services	Act of Registration	RBA	High	To provide assurance that the information requested by the service for registration for a council house is robust, timely and compliant with GDPR.		588	
	Homeless Reduction Act	RBA	High	Following the introduction of the Homeless Reduction Act, assurance to be provided on whether the service has met the requirements and the impact on the service		578	
	Housing Repairs - income and debt collection	RBA	High	Assurance that the service has robust and timely controls in place for income collection and debt collection.			

	Housing integration - housing repairs team	RBA	High	Assurance that the service has robust controls in place for its day to day operation following the insourcing of the repairs team.		540	
Follow-ups							
	SLAs in Housing	Follow up	Medium	Progress made and updated position against original recommendations made and actions agreed by management. Original audit opinion was Limited Assurance.			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	AGS	Portfolio RMP	CRR
People Portfolio							
Portfolio-wide	Resource allocation to enable the provision of support and advice during the change processes.	Business Partnering	High	Allocation to be called upon by People management on an ad hoc basis.			
	Adults Social Care records.	Business Partnering	High	Support to management in developing the process for the completion of Adult Social Care records.		4, 206, 14, 270	
	Adult Social Care Recovery Plan	RBA	High	To provide assurance on the effectiveness of the Adults Recovery Plan.			
	Children Social Care Recovery Plan	RBA	High	To provide assurance on the effectiveness of the Childrens Recovery Plan.			
	Risk Management.	RBA	High	To provide assurance on the effectiveness of the Risk Management process, ensuring it is embedded and working well in all service areas.			
	ContrOCC - overpayments	RBA	High	A review following on from the audit assessment of double payments made in September/October 2018. To provide assurance that adequate controls are in place to help prevent duplicate payments in the future.			
Children and Families and Care and Support	Continuing Health Care - all ages	RBA	High	A joint piece of audit work delivered with the Clinical Commissioning Groups (CCG) auditors. Assurance that CHC controls are effective with regard to the provision of care to adults/children between health and the Council. Noted CHC - Adults audit was delivered and reported January 2019 so this element of the review will be a follow up of the reported recommendations.			3

Business Strategy	Income and Payments Process Review - Fairer Charging.	RBA	High	To assess the income and payments processes across the Portfolio and linkage to Fairer Charging.		11, 14, 271	
	Financial Aspects of Liquid Logic	RBA	High	To assess the robustness and effectiveness of the Financial Aspect of Liquid Logic across both Children and Adult Services.		222	
	Due Diligence - regarding service changes in relation to Learn Sheffield	RBA	High	To assess the impact to various services in relation to changes regarding Learn Sheffield.		225	
Care and Support	Care package assessments review process.	RBA	High	A review of the controls and process in place for the review and assessment of care packages. The review will encompass Locality Teams and Future Options ensuring robust arrangements are in place and consistency of approach across teams.		5	
	Demand Forecasting - Adult Social Care (ASC)	RBA	High	To provide assurance that the Portfolio has effective processes in place to predict, track, cost and monitor demand to help inform business planning and budget setting decisions.			
	Commissioning - Enhanced Supported Living.	RBA	High	To provide assurance on the contract monitoring and controls in place. Including an assessment of costs and effectiveness of the new Framework in order to provide positive outcomes and sustainable quality at best value.			
Commissioning Inclusion & Learning	Transition from Children's to Adults social care.	RBA	High	Assurance that there are robust controls in place for the transfer of children to adults social care.			
	Early Year's Review.	RBA	High	Following on from the Best Start Strategy this audit will review the new provision that has been established and provided assurance on the controls in place and their robustness.			
	Building Successful Families - Payment by Results (PbR)	Grant certification / account sign off	statutory	Verification and validation checks on a 5% representative sample of the MAST cases.			

	Special Schools - Attendance Recording	RBA	High	To provide assurance that Special Schools are operating a robust and well controlled attendance recording system.			
	Special Educational Needs and Disabilities (SEND).	RBA	High	To assess the progress made in relation to the action plan following the Ofsted visit and report.		206	19
Children & Families	Department for Education Social Impact Bond - Project Apollo	Grant certification / account sign off	Statutory	Verification and validation checks on a 10% sample of participants to support the claim for each outcome.			
	Multi-Agency Support Teams (MAST)	RBA	High	A review of this early help services and an assessment of the training and consultancy provided across the city.		254	
	Direct Payments	RBA	High	To provide assurance that only legitimate and authorised payments are being processed in line with documented procedures.			
	Disabled facilities grant sign off.	Grant certification / account sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with.			
Schools	School Financial Values Standards (SFVS)	Compliance	Medium	Schools that do not complete the SFVS return for 2018/19 will be issued a letter from Internal Audit notifying them that they will be included on all the School Themed reviewed for 2019/20 due to concerns about their internal controls and processes. In an addition an audit visit may also be undertaken.			
Schools	Income Collection and Banking	Control risk self assessment	Medium	CRSA exercise to ascertain whether the controls in place around Income Collection and Banking is effective.			
Schools	CCTV's in schools	Control risk self assessment	Medium	CRSA exercise to ascertain whether the controls in place around CCTV's in schools is effective.			

Chargeable work	Talbot Specialist school - collaborative fund expenditure.	Grant certification / account sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with.			
Chargeable work	Dobcroft Infant school - collaborative fund expenditure.	Grant certification / account sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with.			
Library and Community Services	General Data Protection Regulation (GDPR) and Information Sharing	RBA	High	To provide assurance to management that arrangements are adequate in the context of GDPR and Information Sharing across the whole service area.		204	
Follow-ups	Independent Sector Provision - Home Care.	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was Medium-High.			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	AGS	Portfolio RMP	CRR
Resources							
Portfolio-wide	Resource allocation to enable the provision of support and advice during the change processes.	Business Partnering	High	Allocation to be called upon by Resources management on an ad hoc basis			
	Life Changes Fund - Social Impact Bond	RBA	High	To provide assurance that the governance arrangements for all parties involved in the Social Impact Bond are robust and adequate.			
HR and Customer Services	Capability Procedures	RBA	High	To provide assurance to management that the procedures for managing staff capability are being effectively operated		R365	
HR and Customer Services	PDR and 1to1 quality assurance process.	RBA	High	To provide assurance to management that the PDR and 1 to 1 processes operated by management are being undertaken and are of an adequate quality.		R361/R365	
HR and Customer Services	I Trent - BACS processes review	RBA	High	To provide assurance to management that the proposed processes for the new Itrent payroll system's BACS have adequate controls in place.		R134	
HR and Customer Services	I Trent- Review of data transfer and validation	RBA	High	To provide assurance to management that the transfer of data from the old payroll system to the new system is adequately managed and that the data can be reconciled		R376	
HR and Customer Services	Registry Office	Follow - up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was limited assurance.			

HR and Customer Services	I Trent - systems process review (post implementation).	RBA	High	To review the new Itrent system in operation to ensure that data is accurately processed, payments are made in a controlled way and that key data and legislative requirements are being complied with.		R365	
Finance and Commercial Services	Treasury Management	RBA	High	To provide assurance to management, that the Treasury management systems of the Council are operated in a controlled manner.			
Finance and Commercial Services	Analytical analysis of direct payments to clients	Business Partnering	High	To review the payments made to clients and to report to management on the outcome. This is to allow a focus on any potential duplications and overall package values.			
Finance and Commercial Services	Review of the operation of the Debtors Enforcement Team	RBA	High	To provide assurance to management that the Council's enforcement team is operating effectively and is self-financing.			
Finance and Commercial Services	Capital Programme	RBA	High	To provide assurance to management that the Council's Capital programme is being managed effectively			
Finance and Commercial Services	Early Payment Discount.	RBA	High	To provide assurance to management and that there are adequate processes in place to monitor and manage the early payment discount process and to ensure that the proposed benefits are being realised.		R353	
Finance and Commercial Services	Sourcing Desk	RBA	Medium	To provide assurance to management that the Council new sourcing desk has adequate control arrangements in place and is operating effectively.			
Legal and Governance	Directors Assurance Mapping (Level 2)	RBA	High	To provide assurance on the outcome of the trialling of level 2 assurance for Directors Assurance Mapping, prior to the roll out to level one next year.			

Legal and Governance	Review of the processes for new Lord Mayors Charity	Business Partnering	Medium	To provide assurance to management that the process being used for the governance of the new lords mayors charity are robust.			
Policy Performance and Communications	Performance Management	RBA	High	To provide assurance to management that the Council Performance management arrangements are reporting efficiently and that the data supplied can be fully validated.		R372	
Policy Performance and Communications	Policies and use of systems for Council operated Social Media Sites.	RBA	Medium	To provide assurance to management that the Council that the social media accounts operated by the Council have been identified and that there are processes in place to ensure that they give a consistent message.			
BCIS	Records Management Strategy	RBA	High	To provide assurance to management that the Council has in place an adequate strategy for the management of records.		R352	
BCIS	GDPR - Compliance in contracts	RBA	High	To provide assurance to management that the contracting arrangements of the Council in relation to third parties use of data is operated in accordance with the requirements of the GDPR.		R352	
BCIS	GDPR - Reporting and investigation of security incidents	RBA	High	To provide assurance to management that the Council has adequate processes in place to allow for data security incidents to be notified, recorded , investigated and reported, in line with the requirements of the GDPR and Council policies.		R352	
BCIS	IT - Assurance Mapping	RBA	High	To provide assurance that the new arrangements for the provision of IT services has adequate assurance mapping in place.		R352	

BCIS	The management of system Audit logs (set up, usage and clearing) on the OHMS system	RBA	High	To provide assurance to management that there is adequate and secure recording and reporting of transactions within the application and that this data is used and deleted appropriately.		R352	
BCIS	The management of system Audit logs (set up, usage and clearing) on the Liquid Logic System	RBA	High	To provide assurance to management that there is adequate and secure recording and reporting of transactions within the application and that this data is used and deleted appropriately.		R352	
BCIS	Process for setting up new users and deactivating leavers.	RBA	High	To provide assurance to management that the process for the setting up of new starters and removing leavers from the Council's IT system is adequate and operating effectively.		R352	
BCIS	I Trent (Payroll)	Application Review	High	To provide assurance to management that the ITrent payroll application is adequately controlled.			
BCIS	Liquid Logic	Application Review	High	To provide assurance to management that the Liquid Logic application is adequately controlled.			
BCIS	Lagan (CRM) (Customer Services)	Application Review	High	To provide assurance to management that the Lagan (CRM) application is adequately controlled.			
BCIS	Academy (Housing Benefits System)	Application Review	High	To provide assurance to management that the Academy (Housing Benefits) application is adequately controlled.			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	AGS	Portfolio RMP	CRR
Investigations							
Re-active Investigations	Time for investigations	Investigation	High	Undertake investigations and support service managers where there are allegations of potential fraud.	AGS	R158	
Re-active Investigations	Advice to Management	Investigation	High	This is a resource to provide ad-hoc advice to management across the Council in relation on-going management investigations.	AGS	R158	
Re-active Investigations	Report to Members on the outcome of the fraud Investigation work	Investigation	High	To coordinate the submission of data for the annual protecting the public purse exercise and for reporting this through to Members of the Audit Committee.	AGS	R158	
National Fraud Initiative (NFI)	Facilitating the Data Matching process	Advisory	Statutory	Legal requirement - This is to coordinate the Councils response to the Cabinet Office in relation to the NFI data matching exercise. To undertake some of the matches in house and to attest to the adequacy of the responses across the Council. To review and report on potential governance issues identified by the process.	AGS	R158	
Housing Benefit	Housing benefit review	RBA	High	To provide assurance that the Council has adequate controls in place to control and monitor expenditure of housing benefit in line with the required regulations. Including regularity and the review of the system and application assessment.	AGS	R133 & R135	CR120

Housing Benefit	Housing benefit insourcing	RBA	High	The service has been identified for insourcing from Capita. This review is to provide assurance that the Council support the insourcing department and that the proposed control arrangements being developed are adequate to ensure that they are in place to control and monitor expenditure of housing benefit in line with the required regulations. this review will look at the operational management arrangements proposed, rather than the current contract managing arrangements.	AGS	R133 & R135	CR120
Governance Arrangements./ Pro-Active Fraud prevention	Parking Services	Pro-Active Fraud	High	To provide assurance to management that the fraud risks associated with Parking Services are adequately set and monitored.	AGS	R313	
Governance Arrangements./ Pro-Active Fraud prevention	Use of Council Vehicles in social care	Pro-Active Fraud	High	To provide assurance to management that there are adequate processes in place to ensure that the use of Council vehicles within social services are adequately managed and monitored, and that fraud prevention risk have been adequately considered.	AGS	R313	
Governance Arrangements./ Pro-Active Fraud prevention	Taxi Contracts	Pro-Active Fraud	High	To provide assurance to management that there are adequate processes in place to ensure that there are adequate fraud prevention measures in place for the letting and management of the Taxi contracts.	AGS	R313	
Governance Arrangements./ Pro-Active Fraud prevention	Council Building Security Arrangements (Townhall)	Pro-Active Fraud	High	To provide assurance to management that the security arrangements for the Town hall are adequate and effectively managed.	AGS	R314	

Governance Arrangements./ Pro-Active Fraud prevention	Core Council Building Security Arrangements (Moorfoot)	Pro-Active Fraud	High	To provide assurance to management that the security arrangements for Moorfoot are adequate and effectively managed.	AGS	R315	
Governance Arrangements./ Pro-Active Fraud prevention	Core Council Building Security Arrangements (Howden House)	Pro-Active Fraud	High	To provide assurance to management that the security arrangements for the Howden House are adequate and effectively managed.	AGS	R316	

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed Assurance to be obtained	AGS	CRR	PRR
Main Financial Systems							
	Data Analysis	Business Partnering	High	Research into data analytical tools and ability to extract data for each Main Financial System. Including research into data fields for interrogation, review and comparison.			
	Debtors	Compliance	High	The system in place for managing and controlling debtors is working effectively and efficiently.			
	Creditors (P2P)	Compliance	High	The system in place for managing and controlling creditors is working effectively and efficiently.			
	Payroll	Compliance	High	The system in place for managing and controlling payroll is working effectively and efficiently.			
	Council Tax	Compliance	High	The system in place for managing and controlling council tax is working effectively and efficiently.			
	Business Rates	Compliance	High	The system in place for managing and controlling Business Rates is working effectively and efficiently.			
	Portfolio financial controls - Place	Compliance	High	Following reviews in other portfolios, that the arrangements for financial controls in Resources are robust and effective.			

NB: As per the protocol with External Audit, the main financial systems are currently defined as:

- Payroll (and associated sub systems such as pensions)
- Purchase to Pay (ordering and accounts payable).
- Accounts Receivable (sundry Debtors) - Debt Recovery Processes
- Corporate Finance Budgetary control – Including Portfolio budgetary control)
- Main Accounting System incl Bank reconciliations
- Asset Management Systems
- Council Tax Income
- Business Rates
- Housing Benefits and Council Tax Benefits Payments systems.
- Treasury management
- Rent income control

First Call List

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Reason for inclusion on First Call
Place					
Culture and Environment	Monitoring arrangements of Sheffield International Venues Ltd (SIV) and Places for People	RBA	Medium	To provide assurance that monitoring arrangements for both contracts/performance are robust and effective.	Assessed as medium risk.
Housing & Neighbourhood Services	Housing Investment Fund (HIF) Strategy	RBA	High	A review of the HIF strategy and plans in place, providing assurance that the deliverables are being managed.	Decision on award of grant funding not due until May 2019, so too early to review at this stage. Consider again at mid-year.
Housing & Neighbourhood Services	Housing plus project - locality working	RBA	Medium	To provide assurance in tandem with PIR that the locality working controls for the project are working in practise and outcomes are being achieved.	Assessed as medium risk.
	HRM - Purchasing cards	RBA	Medium	Assurance that the service, insourced from Kier Service has robust controls in place for the use of purchasing cards when carrying out housing repairs.	Assessed as medium risk.
Transport, facilities, repairs & maintenance Service	HRM - Stores audit	RBA	High	To provide assurance on the controls in place for the Housing repairs Stores.	Resourcing issue
Transport, Facilities, Repairs & Maintenance	Howden PFI - FM services review	RBA	Medium	To review the end to end processes of the FM services being delivered as part of the Howden PFI, to establish if savings can be achieved by delivering in house.	Assessed as medium risk.
People					
	New Funding Formula	RBA	Medium	To assess the impact of the introduction of local fair funding formula arrangements.	Assessed as medium risk.

	Fieldwork Services - Use of Cash for Payment Request Forms (PRFs) and Service Amendment Forms (SAFs)	RBA	Medium	To assess the levels of cash payments made from Howden House ensuring legitimate and authorised payments are made.	Assessed as medium risk.
	Children's Homes Introduction of HUBS. Safeguarding HUBS	RBA	Medium	To provide assurance that the introduction of HUBS has been effectively planned, controlled and delivered.	Assessed as medium risk.
	Boards Governance and Decision making process.	RBA	Medium	To provide assurance on the effectiveness of the Board structure, governance arrangements and decision making process.	Assessed as medium risk.
	Adult Placements in Learning Disabilities.	RBA	Medium	Assurance on the system in place for the placements of adults with Learning Disabilities.	Assessed as medium risk.
	Better Care Fund (BCF)	RBA	Medium	To provide assurance that the controls in place for the Better Care Fund are robust.	Assessed as medium risk.
	Short Term Intervention Team (STIT) - entry to scheme.	RBA	Medium	Assurance that the controls in place for client assignment and access to STIT are robust.	Assessed as medium risk.
	Short Term Intervention Team (STIT) - leaving the scheme.	RBA	Medium	Assurance that the controls in place for client 'sign off' from STIT are robust.	Assessed as medium risk.
Resources					

Governance Arrangements/Pro-Active Fraud prevention	Management of furnished properties	Pro-Active Fraud	High	To provide assurance to management that there are adequate anti fraud processes in place to ensure the procurement, management and disposal of goods for the Councils furnished housing stock is adequately controlled and that fraud risks have been adequately considered.	6 pro-active reviews are included in the plan already.
Governance Arrangements/Pro-Active Fraud prevention	City Centre Ambassadors	Pro-Active Fraud	High	To provide assurance to management that fraud risk and safety risk have been adequately considered in the frontline roles of the Councils city Ambassadors.	6 pro-active reviews are included in the plan already.

Summary	no of audits	High	Medium
Place	6	2	4
People	6		6
Resources	2	2	
Total	14	4	10



Audit and Standards Committee Report

Report of: Dave Phillips, Head of Strategic Finance

Date: 18th April 2019

Subject: Compliance with International Auditing Standards

Author of Report: Kayleigh Inman, Senior Finance Manager (Internal Audit)

Summary:

This report has been drafted so that the Audit and Standards Committee can demonstrate to the External Auditors and the wider audience that they have exercised the required oversight to meet the requirements of the International Standards on Auditing. This report draws together much of the work that has been undertaken by the Audit and Standards Committee in the past year.

Recommendations:

- 1) Members are asked to confirm that the report gives an accurate reflection of the reports that they have received and considered throughout the year.
 - 2) Members are also asked to confirm that they now have an overview of the Council's systems of internal control so that they are assured that they are fulfilling the requirements of "those charged with governance" under the International Auditing Standards.
-

Background Papers:

Category of Report: Open

* Delete as appropriate

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: K Inman
Legal implications
YES /NO Cleared by:
Equality of Opportunity implications
YES /NO Cleared by:
Tackling Health Inequalities implications
YES /NO
Human rights implications
YES /NO
Environmental and Sustainability implications
YES /NO
Economic impact
YES /NO
Community safety implications
YES /NO
Human resources implications
YES /NO
Property implications
YES /NO
Area(s) affected
Corporate
Relevant Scrutiny Board if decision called in
Is the item a matter which is reserved for approval by the City Council? YES /NO
Press release
YES /NO

Report to the Audit and Standards Committee April 2019

Compliance with International Standards on Auditing (ISA)

Introduction

- 1) **International Standards on Auditing (ISA)** are professional standards for the performance of financial audits of financial information. 'Those charged with governance' oversee the entity's systems for monitoring risk, financial control and compliance with the law.
- 2) As part of the International Standards on Auditing (ISA) there is a requirement for 'those charged with governance; (for Sheffield City Council this is the Audit and Standards Committee) to demonstrate formally that they have exercised adequate oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control, together with overseeing the financial reporting process.
- 3) For the past few years, this report has been produced for the Audit and Standards Committee to enable them to demonstrate that they have taken the appropriate overview of the entire governance framework of the Council, and have therefore meet the requirements of the International Standards on Auditing.
- 4) From 2018/19 the external auditor for SCC changed from KPMG to Ernst and Young (EY). The change in auditor has provided an opportunity for revisions to be made to the format of this report to reflect the requirements and specifications of the new auditors. A copy of the required assurance requested by EY is attached in letter form to this report (Appendix 1). It is the intention of this report to answer each of the auditors' questions and in doing so will demonstrate that the Audit and Standards Committee has the required oversight of the governance framework and management's control processes.

Key Requirements of the International Auditing Standards

- 5) The key elements that are required to be covered by members in relation to the International Auditing Standard (*UK&I*) (IAS) are noted below:
- 6) Under ISA 240 the Council's appointed external auditors (EY) are required to understand how 'those charged with governance' exercise oversight of management processes for:
 - identifying and responding to the risk of fraud in the Council, and the internal control that management has established to mitigate these risks;
 - Determining whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.

- Assessing the risk that the financial statements may be materially misstated due to fraud or error;
- 7) ISA 250 requires that external auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.
- 8) Additionally those charged with governance must approve the financial statements, so an understanding as to how the Audit and Standards Committee obtains the necessary assurances to discharge this responsibility is also required.

Areas Covered in the Report

- 9) The following sections summarises how the members of the Audit and Standards Committee have been provided with assurance that key elements of the Council's internal control systems are being reviewed and reported upon. This is a consolidation report of items that have been presented to the Audit and Standards Committee throughout 2018/19, and covers the : -
- Annual Accounts (2017/18)
 - System of Internal Control
 - Governance Arrangements (and compliance with laws and regulations)
 - Counter Fraud Arrangements
 - Risk Management
 - Standards Issues
- 10) The Audit and Standards Committee comprises 7 non-executive members of the Council with proportionality applied and a maximum of 3 non-voting co-optees.
- 11) There are also currently three Independent Persons that assist the Monitoring Officer in dealing with standards complaints against Councillors. They attend the meetings of the Committee when there is a Standards focus.
- 12) It is noted that the Audit and Standards Committee have taken a number of steps to help them undertake their roles and responsibilities. This has included taking independent advice and training. Officers of the Council

and External Audit also attend the Committee to present reports and to answer questions raised.

Annual Accounts

- 13) Those charged with governance (the Audit and Standards Committee) are required to approve the financial statements. In order to do this effectively, the Audit and Standards Committee obtains the necessary assurances to discharge this responsibility via a number of submissions/reports.
- 14) In June 2018, the Senior Finance Manager (Strategic Finance) reported upon the arrangements for the production of the 2017/18 annual accounts and provided members of the Audit and Standards Committee with a summary of the Statement of Accounts. An explanation of the core statements and a number of the key notes to the accounts was provided. Officers confirmed that it was appropriate that the financial statements of the Authority were prepared on a going concern basis, and they intend to give the same assurances in relation to 2018/19. Officers also intend to confirm there is no organisational or management pressure to manipulate materially the financial position as reported in the statutory accounts to meet financial or operating targets. External Audit expressed satisfaction with the arrangements.
- 15) A training session, facilitated by an independent provider, was delivered to members of the Audit and Standards Committee to assist with their understanding of the draft accounts.
- 16) The Head of Strategic Finance presented the audited annual accounts at the July 2018 meeting. The Audit and Standards Committee reviewed the accounts and questioned the officers on items contained therein. Where additional information was requested, this was provided to the Committee promptly in a suitable form for discussion.
- 17) The external auditors, KPMG, presented their ISA 260 report to the July 2018 Audit and Standards Committee. The report outlined the work undertaken on the 2017/18 accounts to support their conclusions.
- 18) External Audit identified no significant issues with the Authority's organisational and IT control environment and considered that the overall arrangements in place were reasonable. Further, they concluded that controls over the majority of the key financial systems were sound, noting some minor weaknesses in respect of delays in preparing bank reconciliation.
- 19) In accordance with ISA 260 External Audit are required to report any corrected audit differences to 'those charged with governance'. This includes any material misstatements which have been corrected. The audit identified a total of two significant audit differences. The first of these (relating to debtor, cash and creditor balances) has been adjusted in the

final version of the financial statements. The second adjustment related to fixed asset additions and was not adjusted. There has been no impact upon net assets held or the General Fund as a result of the audit differences. In addition, a small number of minor errors and presentational adjustments were required.

- 20) KPMG concluded that in all significant respects the Authority had proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. They concluded that the Authority had proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and issued an unqualified Value for Money conclusion.
- 21) Certificates of Completion of the audits for 2016/17 and 2017/18 cannot be issued until work had been concluded on the outstanding objections received in 2016/17 from local electors. These objections related to the Council's Lender Option Borrower Option (LOBO) loans, and the Council's Private Finance Initiative Schemes. The LOBO objection has now been closed, however work on the PFI issue remains ongoing. Unqualified audit opinions have been issued for both 2016/17 and 2017/18.
- 22) The accounts for 2017/18 were prepared to meet the required timescales for shorter closedown, noting the point above about the completion date.

System of Internal Control

- 23) There is an explicit requirement on officers and members to comply with the Council's Code of Conduct and supporting rules and regulations. As part of the sign-off process for the Annual Governance Statement (AGS), Directors are required to confirm in writing that they have in place adequate systems that ensure compliance with the relevant rules and legislation pertaining to their area of activity and this is used as a basis for the production of the statement. They also confirm that they are managing the risks pertaining to their service.
- 24) Internal Audit planning arrangements are designed to cover the significant risks of the Council and the plans are endorsed by the Audit and Standards Committee. The plan for 2018/19 was presented to the Committee in April, along with a report describing the process for compiling the plan. The new plan for 2019/20 is on the same agenda as this report.
- 25) All reports containing a "high opinion" are submitted to Committee members in full. An auditable area receiving a high opinion is considered by internal audit to be an area where the risk of the activity not achieving objectives is high and sufficient controls were not present at the time of the review. Members can then forward any questions to the Senior Finance Manager, Internal Audit and responses are circulated to all. This process is used ensure members are aware of any breaches of, or deficiencies in internal control.

- 26) Bi-annual update reports are provided to the Committee to outline progress on the implementation of recommendations contained within the high opinion reports. The tracker report is used to monitor all recommendations until they are satisfactorily implemented. In addition, issues would be raised from other reports, where Internal Audit are aware of serious breaches of control arrangements or where it is felt that management are not adequately dealing with matters of concern. No such issues have arisen in 2018/19.
- 27) In October 2018, the approach to the Internal Audit Opinions was revised. Opinions are now expressed as assurance statements and are supported by an organisational impact assessment. As part of the new approach, it was agreed that all reports with a 'no assurance' opinion would be submitted to members of the Audit and Standards Committee in full, regardless of the organisational impact. Further it was agreed that 'limited assurance' reports with a high organisational impact would also be provided to members of the Committee.
- 28) The Senior Finance Manager (Internal Audit) produces an independent annual report which was presented to the September Audit and Standards Committee highlighting the work undertaken on the Council's control environment and her opinion on the Council's control arrangements. For 2017/18 the Senior Finance Manager (Internal Audit), was satisfied that the risk management, governance and internal control framework was adequate to allow the Council to conduct its business appropriately.

Governance Arrangements (and compliance with laws and regulations)

- 29) The governance framework of the Council comprises the systems and processes, and cultures and values by which the Council is directed and controlled. The framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 30) The Council constantly reviews key governance documents, such as the Constitution and the Leader's Scheme of Delegation, supported by the Standing Orders and Financial Regulations to ensure that they are fit for purpose.
- 31) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement (AGS). The 2017/18 AGS highlighted one significant control weaknesses - the ability to comply with Subject Access Requests requirements. This issue was monitored by the Executive Management Team and progress will be reported back to the Audit and Standards Committee as part of the AGS process for 2018/19.
- 32) In September 2018 a report was presented to update members of the Audit and Standards Committee on the work carried out within the Council

to prepare for and comply with the new data protection legislation that came into effect on 25th May 2018. It was noted that compliance to GDPR and data protection is an ongoing activity and the work to develop and maintain compliance moved to the Information Governance Working Group to be part of business as usual.

- 33) As part of the above transition, a GDPR action plan will be used by the Information Governance Working Group representatives to work within their respective portfolios to ensure data protection is embedded into working practice, which can be monitored and measured with the Annual Governance Statement.
- 34) Every executive report must include financial and legal implications and equal opportunities implications as a minimum. The financial and legal implications are signed-off following submission to the relevant professional services. This process gives the Council and Audit and Standards Committee assurance that law and regulations are complied with.
- 35) The Senior Finance Manager (Internal Audit) presented her independent annual report to the September meeting of the Audit and Standards Committee, which supported the Council's Annual Governance Statement. The report gave details of the audit coverage and outlined how overall the response to recommendations made by Internal Audit was positive, with the majority being accepted by management. No material non-compliances with law and regulations have been identified through the audit work performed.
- 36) The Senior Finance Manager for Internal Audit retains the independent access rights to the Chief Executive of the Council, along with the Chair and other members of the Audit and Standards Committee. This has worked well in the year.

Counter Fraud Arrangements

- 37) The primary responsibility for the prevention and detection of fraud rests with both SCC management and those charged with governance. It is important that management place a strong emphasis on fraud prevention, which may reduce the opportunities for fraud to taken place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.
- 38) The Council's Anti-fraud and Corruption Policy Statement and Framework, clearly states that the Council has a zero tolerance to fraud, and that it expects its employees to uphold the highest ethical standards and to strictly adhere to its anti-fraud framework and associated policies.
- 39) As part of the Officers' Code of Conduct, the Policy Statement - Fraud & Corruption incorporates a message from the Chief Executive which clearly

states the 'zero tolerance' approach of the authority. It incorporates the fact that any instances of fraud or corruption will be treated as gross misconduct.

- 40) Within Internal Audit, counter fraud resources are allocated in the annual Internal Audit plan as presented to the Audit and Standards Committee in April 2018.
- 41) In June 2018, a report was produced for the Audit and Standards Committee to summarise the reactive and pro-active fraud activity undertaken by Internal Audit in 2017/18. Internal Audit conducted three pro-active counter fraud exercises. Issues from these reviews were discussed and actions agreed with the relevant managers in the areas concerned. These reviews did not identify any instances of fraud being undertaken. A similar report will be presented in due course for 2018/19.
- 42) The report also contained a full suite of updated policies covering the various elements of the fraud and corruption framework for the Council. The policies now form a suite which gives a consistent approach for the identification of fraud risks and their mitigation. There is also a process to allow managers to investigate potential fraud risk effectively in line with the other relevant policies and procedures.
- 43) Any Individual incidents of a material scale will continue to be reported to the Audit and Standards Committee by Internal Audit, and the Audit and Standards Committee can call in officers to respond to the issues raised. Internal Audit has detected no material frauds during the year (to date).
- 44) The Cabinet Office is responsible for the National Fraud Initiative and the exercise for 2016/17 is being concluded. The required data sets were submitted in October 2018, which resulted in a significant number of data matches being received in February 2019.
- 45) The matches were distributed to the relevant sections across the Council and Capita who were responsible for checking these matches, taking the appropriate actions (recovery and sanctions) and for recording the outcomes onto the central NFI database. There are a number of different categories of matches dependent upon the strength of the data. The Council concentrates effort in those areas where the most significant results are found. Internal Audit has provided support throughout the year to services to ensure the strong data matches were investigated and the outcomes appropriately recorded.
- 46) Appended to the 2018 Fraud Report was a completed checklist for 'those charged with governance'. The document was prepared by Internal Audit to highlight to the Audit and Standards Committee that the Council has in place adequate arrangements for the prevention, detection and investigation of fraud that may occur within SCC.

- 47) SCC has an extensive Whistleblowing Policy that contains an explanation on whistleblowing arrangements and the reporting access routes including the details of designated contact officers. The Human Resources Service maintains a central register of allegations. Whistle blowing allegations are all reviewed and where appropriate fully investigated by someone independent of the area.
- 48) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed. Much of the fraud investigation work is undertaken by management supported by Internal Audit and HR.

Risk Management

- 49) The Council has a risk management framework in place that has been agreed by Cabinet. The Corporate Risk Manager attended the Audit and Standards Committee in July 2018 and January 2019 to present to members a report on the current risk management reporting arrangements within the Council and measures being implemented to further strengthen and improve those arrangements. The report included the risk trend analysis as well as the current and emerging risk to delivery of the Council's strategic objectives and the controls in place to manage those risks. Included within the presentation was consideration of the corporate risk around the financial position of the Council and demand pressures, particularly in relation to adult and children's social care. Audit and Standards Committee members are given the opportunity to question any issues raised.
- 50) There is a requirement that all reports that are presented to the Council's Cabinet contain the key risks that relate to the subject area, and these are scrutinised by the members. There is also a process in place to record and manage the risks in relation to programmes and projects as part of the progress reports submitted to members.

Standards Issues

- 51) The latest version of the Procedure for Dealing with Standards Complaints was approved by the Audit and Standards Committee on 16 November 2017 and by Full Council on 6 December 2017, with a new requirement to review the procedure on an annual basis by the Monitoring Officer in consultation with the Independent Persons. A report was submitted in September 2018 proposing some slight revisions as a result of the complaints considered this year.
- 52) A report was submitted to the Committee in July 18 providing an update on complaints made and actions taken.

Requested actions

- 53) Members are asked to confirm that this report gives an accurate reflection of the items that they have received and considered throughout the year.
- 54) Members are also asked to confirm that they have an appropriate overview of the Council's systems of internal control so that they are assured that they are fulfilling the requirements of "Those Charged with Governance" under the International Auditing Standards.

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Councillor Josie Paszek
Sheffield City Council
Town Hall
Pinstone Street
Sheffield
S1 2HH

19 October 2018

Dear Councillor Paszek,

Understanding how the Audit & Standards Committee gains assurance from management

Auditing standards require us to formally update our understanding of your arrangements for oversight of management processes and arrangements annually. Therefore, I am writing to ask that you please provide a response to the following questions.

1) How does the Audit & Standards Committee, as 'those charged with governance' at the Authority exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Authority's code of conduct);
- encouraging employees to report their concerns about fraud; and
- communicating to you the processes for identifying and responding to fraud or error?

2) How does the Audit & Standards Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?

3) Is the Committee aware of any:

- breaches of, or deficiencies in, internal control; and
- actual, suspected or alleged frauds during 2018/19?

4) Is the Committee aware any organisational or management pressure to meet financial or operating targets?

5) How does the Audit & Standards Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2018/19?

6) Is the Audit & Standards Committee aware of any actual or potential litigation or claims that would affect the financial statements?

7) How does the Audit & Standards Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

Thank you for your assistance. If you have any queries in respect of this letter please contact me at Mgreen11@uk.ey.com.

We would appreciate a response in advance of 31 March 2019.

Yours sincerely



Michael Green
Senior Manager



Sheffield City
Council
Audit planning report
Year ended 31 March 2019

18 April 2019



Private and Confidential
Sheffield City Council
Town Hall
Pinstone Street
Sheffield

18 April 2019

Dear Audit & Standards Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit & Standards Committee with a basis to review our proposed audit approach and scope for the 2018-19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit & Standards Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 18 April 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Stephen Clark

For and on behalf of Ernst & Young LLP

Contents

01 Overview of our 2018/19 audit strategy	02 Audit risks	03 Value for Money Risks	04 Audit materiality	05 Scope of our audit
				
				
06 Audit team	07 Audit timeline	08 Independence	09 Appendices	

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit & Standards Committee and management of Sheffield City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Standards Committee, and management of Sheffield City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Standards Committee and management of Sheffield City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01

Overview of our 2018/19 audit strategy



Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

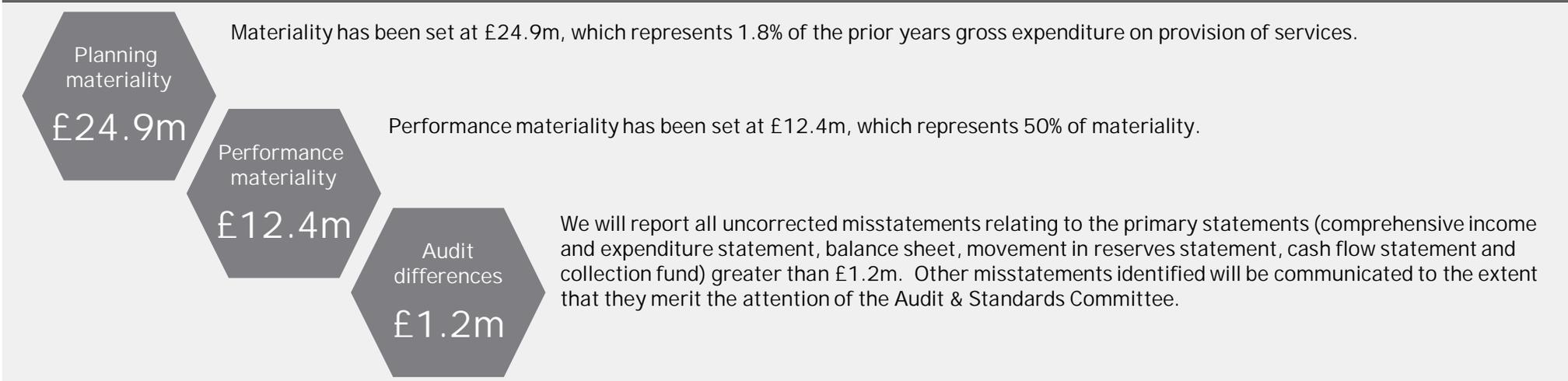
Risk / area of focus	Risk identified	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Misstatements due to fraud or error	Fraud risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of Investment Properties and Property, Plant and Equipment	Significant risk	The Council has a large and complex asset base that makes up a significant proportion of its balance sheet. Valuation of assets is an area subject to professional estimation and therefore a higher risk of misstatement.
Local Government Pension Scheme	Other financial statement risk	The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. As included in the findings reported in the 2017/18 Audit Results Report, we will include additional focus on the valuation of scheme assets used by the actuary in determining the IAS 19 adjustments.
PFI accounting treatment	Other financial statement risk	The Council has a number of PFI and service concession arrangements which include several judgements made by management resulting in the accounting treatment shown in the financial statements.

Overview of our 2018/19 audit strategy

Audit risks and areas of focus		
Risk / area of focus	Risk identified	Details
IFRS 9 - Financial statements	Other financial statement risk	These are new accounting standards applicable for local authority accounts from the 2018/19 financial year. There is a risk that the Council does not implement the requirements of the standards correctly. Further details of the risk are provided at page 13.
IFRS 15 - Revenue contracts with customers	Other financial statement risk	

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Materiality



Overview of our 2018/19 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Sheffield City Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



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02 Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p data-bbox="120 440 472 496">Risk of fraud in revenue and expenditure recognition</p> <p data-bbox="100 735 472 836"> Page 59 Financial statement impact </p> <p data-bbox="109 858 539 1015">Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.</p>	<p data-bbox="577 461 1167 715">Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p data-bbox="577 751 1084 810">We consider that this significant risk is associated to the following specific areas:</p> <ul data-bbox="674 815 1167 1161" style="list-style-type: none"> • Improper capitalisation of revenue expenditure in order to reduce the impact on the general fund • Understatement of expenditure recognised as liabilities in the balance sheet at the year-end • Overstatement of income recognised as assets in the balance sheet at the year-end • Improper application of revenue cut-off 	<p data-bbox="1205 461 2040 520">We will carry out substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below:</p> <ul data-bbox="1205 568 2107 1153" style="list-style-type: none"> • Document our understanding of the processes and controls in place to mitigate the risks. • Identify and walk through those processes and controls, confirming our understanding. • Review income and expenditure recognition policies and confirm consistency of application through performance of testing • Identify significant accounting estimates for revenue and expenditure, discussing assumptions and calculation methodology with management • Test the identified significant accounting estimates to confirm appropriateness and consistency with supporting records considering evidence of bias • Sample test material revenue and expenditure streams with a focus on assets and liabilities at the year-end • Testing of revenue cut-off at the period end date • Conduct testing to identify unrecorded liabilities at the year-end • Testing a sample of Property Plant and Equipment additions to confirm that the expenditure has been appropriately capitalised <p data-bbox="1205 1201 2107 1358">Testing of revenue and expenditure will be supported through the use of data analytics tools to support sample selection. The data analysis tools enable the full population of income and expenditure to be included within the sample population. The population will be filtered to enable testing to focus on higher risk areas, high value and unusual transactions.</p>

Our response to significant risks (continued)

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What will we do?

We will carry out substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Sample testing of journals from the accounting period that are identified from application of specified audit risk criteria
- Consider the existence of significant unusual transactions during the year, and performing review and testing as required
- Consider the results of testing relating to revenue and expenditure recognition in order to identify indicators of management override of controls.

Our response to significant risks (continued)

Valuation of Investment Properties and Property, Plant and Equipment	What is the risk?	What will we do?
<p>Page 61</p> <p>Financial statement impact</p> <p>Misstatements that occur in relation to the valuation of Investment Properties and Property, Plant & Equipment could affect the balance sheet. These accounts had the following balances in the 2017/18 financial statements:</p> <ul style="list-style-type: none"> • Council dwellings: £1,267m • Other land and buildings: £546m • Surplus assets: £112.8m • Investment Properties: £26.8m 	<p>The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years with investment property valued annually. All valuations are carried out by the Council's own specialist valuer and must follow the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. This process incorporates significant judgements.</p> <p>The assets that fall within this risk are those that are held at fair value, being:</p> <ul style="list-style-type: none"> • Council dwellings • Other Land & Buildings • Surplus Assets • Investment Properties 	<p>We will:</p> <ul style="list-style-type: none"> • Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code; • Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; • Consider changes to useful economic lives as a result of the most recent valuation; • Engage internal EY valuation specialists to review the approach of the Council valuer, consider assumptions underpinning the valuation and to provide expected valuations for a sample of assets valued during the year; • Test accounting entries have been correctly processed in the financial statements; and • Review the classification of assets and ensure the correct valuation methodology has been applied.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><u>Local Government Pension Scheme</u></p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £776.6 million.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Liaise with the auditors of the pension fund, to obtain assurances over the information supplied to the actuary in relation to the Council; • Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; • Consider the variation in the valuation of pension fund assets used in the Council's actuarial valuation to the actual year-end asset valuation in order to determine whether the estimate was materially correct: and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
<p><u>PFI and Service Concession arrangements</u></p> <p>The Council has a number of PFI and service concession arrangements which include several judgements made by management resulting in the accounting treatment shown in the financial statements. The arrangements are supported by complex models to calculate the figures to be included in the financial statements each year.</p> <p>As this is EY's first year as appointed auditor to the Council, we are required to gain assurance that the schemes are being accounted for correctly and that the financial statements are supported by underlying documentation and financial models.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> • As this is our first year of the audit we will review (with the support of EY specialists) the accounting judgements and models to ensure that we are comfortable with the judgements and related accounting treatment in the financial statements. • For each of the schemes we will undertake testing of in-year inputs to the accounting models and agree relevant entries in the financial statements to year-end outputs from each of the models. • Review associated disclosures within the financial statements to confirm they meet Code requirements and are reflective of supporting documentation.

Other areas of audit focus (continued)

What is the risk/area of focus?

IFRS 9 - financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9.

IFRS 15 – Revenue contracts with customers

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non-domestic rates and government grants will be outside the scope of IFRS 15. If the Council has not assessed if standard is relevant, there may be a risk of material misstatement if recognition of revenue is incorrect and new disclosure requirements are not included in the financial statements.

What will we do?

We will:

- Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Consider the classification and valuation of financial instrument assets;
- Review new expected credit loss model impairment calculations for assets; and
- Check additional disclosure requirements.

We will;

- Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.
- Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Check additional disclosure requirements are correctly included.



03

Value for Money Risks





Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

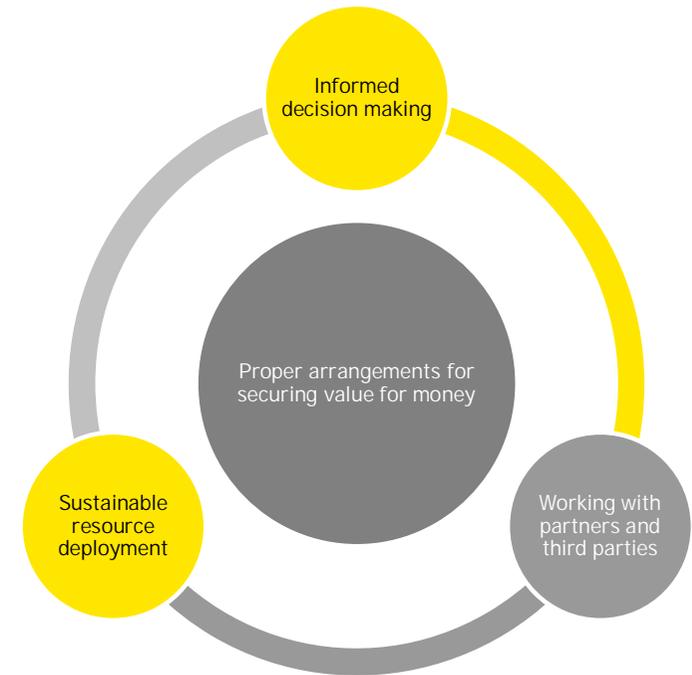
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant 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"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the council to consider the impact of relevant risks on its future service provision, medium-term financing and investment values.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion.



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Value for Money Risks

What is the significant value for money risk?

Securing Financial Resilience

The financial environment in which the Council operates continues to be challenging with continued reductions in funding and increasing demand for services.

The Council has responded well to challenges and delivered significant and continued levels of savings (£460m since 2010) whilst maintaining services for the local population.

The most recent financial position reported to cabinet to month 11, identifies that the Council is forecasting a £6.5m overspend for 2018/19 which may reduce slightly to the year-end. This includes a £15m overspend within Adult and children's' social care budgets, after additional investment of £15m in these areas for 2018-19.

The recently approved 2019-20 budget shows a balanced position for the year and includes an additional £20m investment in social care services. The balanced position does however include a planned £11m use of Council reserves

The reported financial performance highlights the importance of increased focus on delivery of savings in overspending areas, service transformation and ongoing investment in key areas. Whilst the Council has a good track record of delivering savings and currently has a reasonable level of reserves, the current trajectory of overspending is not sustainable in the medium to long term and services will need to be tackle pressures and meet savings requirements, supporting the Council 4 year plan to bring the budget back to balance.

What arrangements does the risk affect?

Deploy resources in a sustainable manner

What will we do?

Our approach will focus on:

- Considering current financial standing and the availability of reserves to fund future expenditure
- Considering the 2018/19 outturn performance and impact on the current MTFS
- Considering the appropriateness of assumptions used by the Council in setting the budget and Medium Term Financial Strategy.



04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £24.9m. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. Materiality is based on expenditure on provision of services as this is the key activity and performance measure of the Council. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit & Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £12.4m which represents 50% of planning materiality. We have used 50% as this is our first year as your auditors.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit & Standards Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £0.001m for audit fees, remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit & Standards Committee.

Internal audit:

We will meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will only use the Internal Reports to assist our audit planning processes.



06

Audit team



Audit team

The engagement team is led by Stephen Clark, who is supported by Michael Green (Senior Manager) and Dan Spiller (Manager), who are responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. Both work within our dedicated Government and Public Sector team and have significant experience on council audits.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries, PSAA consulting actuaries and Scheme actuary
PFI	EY Internal PFI Specialist

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Audit & Standards Committee and we will discuss them with the Audit & Standards Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit & Standards Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	December		
	January	Audit & Standards Committee	
	February		
Testing of routine processes and controls Interim audit testing	March		Audit Planning Report
	April	Audit & Standards Committee	Audit Planning Report
	May		
Year end audit	June	Audit & Standards Committee	
Year end audit Audit Completion procedures	July	Audit & Standards Committee	Audit Results Report Audit opinions and completion certificates
	August		
	September	Audit & Standards Committee	Annual Audit Letter

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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>The overall assessment of threats and safeguards;</p> <p>Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Clark, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 26%. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



09

Appendices



Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2018/19	Scale fee 2018/19
	£	£
Total Fee - Code work	143,988	143,988
Total audit	143,988	143,988
Other non-audit services not covered above (Housing Benefits)	19,000	N/a
Teachers' Pensions	5,000	N/a
Housing capital receipts pooling	2,800	N/a
Total other non-audit services	26,800	N/a
Total fees	170,788	143,988

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit & Standards Committee

We have detailed the communications that we must provide to the Audit & Standards Committee.



Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit & Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 18 April 2019
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process • Findings and issues regarding the opening balance on initial audits 	Audit results report 25 July 2019

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Required communications with the Audit & Standards Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Page 84	Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report 25 July 2019
	misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report 25 July 2019
	Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit & Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report 25 July 2019
	Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report 25 July 2019

Required communications with the Audit & Standards Committee (continued)

Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence • Relationships between EY, the Council and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Audit & Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Planning Report 18 April 2019</p> <p>Audit Results Report 25 July 2019</p>

Appendix B

Required communications with the Audit & Standards Committee (continued)

 Our Reporting to you

Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report 25 July 2019
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit & Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit & Standards Committee may be aware of 	Audit results report 25 July 2019
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit results report 25 July 2019

Appendix B

Required communications with the Audit & Standards Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report 25 July 2019	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report 25 July 2019	
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report 25 July 2019	
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report 18 April 2019 Audit results report 25 July 2019	
Certification work	Summary of certification work undertaken	Certification report January 2020	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit & Standards Committee reporting appropriately addresses matters communicated by us to the Audit & Standards Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

Agenda Item 9

Audit and Standards Work Programme 2018-19

Date	Item	Author
21 March 2019	(Additional meeting if required)	
18 April 2019	Internal Audit Plan 2019/20	Kayleigh Inman (Senior Finance Manager)
	Compliance with International Auditing Standards	Dave Phillips (Head of Strategic Finance)
	Certification of Claims and Returns Annual Report 2017/18 (Potentially January meeting)	External Auditor (KPMG)
	External Audit Plan 2018/19	External Auditor (Ernst and Young)
	Annual Audit Letter 2016/2017 and 2017/18	External Auditor (KPMG)
	Annual Audit Fee Letter 2019/20	External Auditor (Ernst and Young)
	Work Programme	Gillian Duckworth (Director of Legal and Governance)
June 2019	Audit Training	External Facilitator
13 June 2019	Summary of Statement of Accounts	Dave Phillips (Head of Strategic Finance)
	Internal Audit Annual Fraud Report	Kayleigh Inman (Senior Finance Manager)
	Whistleblowing Policy Review and Update	Gillian Duckworth (Director of Legal and Governance)
	Standards Code of Conduct for the Lord Mayor and Cabinet Members	Gillian Duckworth (Director of Legal and Governance)
	Work Programme	Gillian Duckworth (Director of Legal and Governance)
25 July 2019	Report to Those Charged with Governance (ISA 260)	External Auditor
	Statement of Accounts	Dave Phillips (Head of Strategic Finance)
	Annual Governance Statement	Gillian Duckworth (Director of Legal and

Audit and Standards Work Programme 2018-19

		Governance)
	Information Management Annual Report	Mark Jones (Senior Information Management Officer)
	Progress on High Opinion Audit Reports	Kayleigh Inman (Senior Finance Manager)
	Standards Committee Annual Report	Gillian Duckworth (Director of Legal and Governance)
	Strategic Risk Management	Richard Garrad (Corporate Risk Manager)
	Work Programme	Gillian Duckworth (Director of Legal and Governance)