



Audit Committee Report

REPORT TO AUDIT COMMITTEE

DATE

14th April 2016

REPORT OF Interim Director of Finance

ITEM

SUBJECT Compliance with International Auditing Standards

SUMMARY

This report has been drafted so that the Audit 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 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.

**FINANCIAL IMPLICATIONS
CLEARED BY**

**No
K Inman**

**PARAGRAPHS
46**

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

**TEL NO.
0114 27 34435**

AREA(S) AFFECTED

**CATEGORY OF
REPORT**

Open

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

Sheffield City Council

Report to the Audit Committee April 2016

Compliance with International Auditing Standards (IASs)

Elements of the Council's System of Internal Control reviewed by the Audit Committee in order to form their opinion on the adequacy of control

Introduction

- 1) As part of the International Auditing Standards (IAS) there is a requirement for those charged with governance (for Sheffield City Council this is the Audit Committee) to formally demonstrate that they have exercised adequate oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control.
- 2) For the past few years similar reports have been produced for the Audit Committee to enable them to demonstrate that they have taken the appropriate overview of the entire governance framework of the Council, and have therefore exercised the necessary oversight to meet the requirements of the International Standards on Auditing.

Key Requirements of the International Auditing Standards

- 3) The key elements that are required to be covered by members in relation to the International Auditing Standard (*UK&I*) (IAS) are noted below:
- 4) Under ISA 240 the Council's appointed external auditors (in the case of Sheffield City Council KPMG LLP) are required to understand how those charged with governance exercise oversight of management processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. Explicit to this is gaining confirmation of the following:-
 - (i) how the Audit Committee oversees management processes to identify and respond to such risks (both counter-fraud arrangements, and more general oversight of internal control arrangements), and
 - (ii) whether they have knowledge of any actual, suspected or alleged frauds affecting the Council.
- 5) ISA 250 requires that external auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.
- 6) Additionally those charged with governance must approve the financial statements, so an understanding as to how the Audit Committee obtains the necessary assurances to discharge this responsibility is required.

Areas Covered in the Report

- 7) The following paragraphs summarise how the members of the Audit Committee can gain assurance that key elements of the Council's internal control systems are being reviewed and reported. This is a consolidation report of items that have been presented to the Audit Committee throughout 2015/16, and covers the : -
- Annual Accounts (2014/15)
 - System of Internal Control
 - Governance Arrangements
 - Counter Fraud Arrangements
 - Risk Management
- 8) The Audit Committee comprises six elected members drawn from the parties on a politically balanced basis. The committee is chaired by Councillor Steve Jones. The constitution of the group is strengthened by the inclusion of two independent non-voting Members; Rick Plews and Liz Stanley. These two individuals bring considerable skills and external experience to the committee. It is noted that the Audit 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 KPMG also attend the committee to present reports and to answer questions raised.

Annual Accounts

- 9) Those charged with governance (the Audit Committee) are required to approve the financial statements. In order to do this effectively, the Audit Committee obtains the necessary assurances to discharge this responsibility via a number of submissions/reports.
- 10) In July, the Interim Director of Finance reported upon the arrangements for the production of the 2014/15 annual accounts and provided members of the Audit 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. External audit expressed satisfaction with the arrangements.
- 11) The Interim Director of Finance presented the audited annual accounts at the September 2015 meeting for sign off. The Audit 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.

- 12) The external auditors presented a report of the findings from their audit of the accounts to the September 2015 Audit Committee prior to the accounts being finalised. The ISA 260 report outlined the work undertaken on the 2014/15 accounts to support KPMG's conclusions. To help meet the responsibilities of those charged with governance, the report outlined any material misstatements identified by external audit, which have been corrected. KPMG's report identified one material misstatement which was presentational in nature relating to the disclosure of PFI infrastructure assets in Note 14. The note has since been amended. In addition, a small number of presentational adjustments were required to ensure that the accounts are compliant with the *Code of Practice on Local Council Accounting in the United Kingdom 2014/15* ('the Code'). The Council addressed these where significant.
- 13) The accounts for 2014/15 were given an unqualified opinion by the External Auditor and were closed within the required timescales.

System of Internal Control

- 14) The Leader of Sheffield City Council signed off the Code of Corporate Governance. The Code of Corporate Governance sets out why good governance is important, explains how SCC defines this, and explains how it will make sure that it takes place.
- 15) 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, 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.
- 16) The 2014/15 Annual Governance Statement (AGS) was presented to the Audit Committee in July 2015 following sign off by the Chief Executive and Council Leader. No significant control weaknesses were identified through the annual governance process. 6 governance issues were identified where work continues to improve the governance controls.
- 17) Internal Audit planning arrangements are designed to cover the significant risks of the Council and the plans are endorsed by the Audit Committee. The plan for 2015/16 was presented to the committee in April, along with a report describing the process for compiling the plan. The new plan for 2016/17 is on the same agenda as this report.

- 18) All reports containing a “high opinion” are submitted to committee members in full. Members can then forward any questions to the Senior Finance Manager, Internal Audit and responses are circulated to all.
- 19) 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.
- 20) In September 2015, senior managers responsible for the Markets Service presented an update report on progress implementing outstanding audit recommendations. Managers responded directly to questions posed by members.
- 21) The Committee was also provided with the required updates on issues that emerged during 2012/13 and 2013/14. These reports included an updates on the Adult Social Care (ASC) Change Programme and the KPMG report on ASC.
- 22) The Chief Audit Executive (Senior Finance Manager) produces an independent annual report to the Audit Committee which highlights the work undertaken on the Council’s control environment and her opinion on the control arrangements.

Governance Arrangements

- 23) The Council constantly reviews key governance documents, such as the Constitution and the Code of Corporate Governance to ensure that they are fit for purpose. These are then reported to the Audit Committee where appropriate.
- 24) This area is primarily the remit of the Council’s Monitoring Officer, who provides reports to the Audit Committee on these issues. She also regularly attends the committee (as appropriate) to answer any questions that members may wish to raise.
- 25) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement (AGS). The 2014/15 AGS highlighted no significant control weaknesses. A similar process will be followed for 2015/16.
- 26) The Senior Finance Manager (Internal Audit) presented her independent annual report to the September meeting of the Audit 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.

- 27) The Senior Finance Manager for Internal Audit now reports directly to the Interim Director of Finance and attends the senior management team meetings. This process is working well and should allay some of the concerns previously raised by members regarding the reporting arrangements for Internal Audit. Although no issues were noted with the previous arrangements, this visually strengthens the independence of Internal Audit.
- 28) The Senior Finance Manager for Internal Audit still retains the independent access rights to the Chief Executive of the Council, as described previously. This has worked well in the year.

Counter Fraud Arrangements

- 29) Counter fraud resources are allocated in the annual Internal Audit plan as presented to the Audit Committee.
- 30) Internal Audit conducted four pro-active counter fraud exercises in 2014/15. Issues from these reviews have been discussed and actions agreed with the relevant managers in the areas concerned. The internal audit service will continue to conduct audits in this area in the coming year.
- 31) A "Protecting the Public Purse" report was presented to the Audit Committee in April 2015, which summarised the national fraud activity identified by the Audit Commission survey, the number of investigations within the authority in 2013/14 and highlighted actions taken to mitigate potential fraud in order to give assurance to the Audit Committee.
- 32) As a result of the closure of the Audit Commission the Protecting the Public Purse report is no longer produced, however a report is on the agenda for today which summarises the reactive and pro-active fraud activity undertaken by Internal Audit in 2014/15.
- 33) The Chief Audit Executive's annual report contained a summary of counter fraud activity during 2014/15.
- 34) Individual incidents of a material scale will continue to be reported to the Audit Committee by Internal Audit.
- 35) The Audit Committee can call in officers to respond to issues raised by the Audit Commission and/or Internal Audit.
- 36) The National Fraud Initiative (NFI) for 2014/15 is now all but complete. The required data sets were submitted in 2014, this resulted in a significant number of data matches which were received in early 2015. The matches were distributed to the relevant sections across the Council and Capita who are 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.

- 37) Internal audit have provided support where required and have monitored and followed up actions until the cases were closed. At the end of March 2015 only a small number of cases remain to be resolved. Internal audit have checked the outcome and provide the required declaration that the exercise has been undertaken appropriately.
- 38) The Cabinet Office has taken responsibility for this exercise going forward and has initiated contact for the data sets to be provided later this year. There is now the facility to request additional matching exercises where this is appropriate. This facility will be taken up where appropriate.
- 39) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed.
- 40) The Department for Works and Pensions (DWP) have formed a National Single Fraud Investigation Service (NFIS) and, as from the 1st of February 2015, all fraud investigations relating to housing benefits are undertaken directly by DWP. The investigators employed by Capita who undertook this service for the Council have now transferred to DWP. This has reduced the Council's resources in this area as the number of accredited fraud investigators employed by the Council has significantly reduced. The finance service has funded the specialist counter-fraud training of an officer in Internal Audit to strengthen its approach to fraud investigation.
- 41) Although considerable progress has been made in implementing fraud awareness across the Council and the policies that underpin this, much of the fraud investigation work is undertaken by management supported by Internal Audit and HR. A review of fraud investigation practices across the Council is currently being undertaken as part of this year's audit plan.

Risk Management

- 42) The Council's Corporate Risk Manager attended the committee in April and November 2015 to present to members reports on the current risk management reporting arrangements within the Council and measures being implemented to further strengthen and improve those arrangements. Both reports 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. Audit Committee members are given the opportunity to question any issues raised.
- 43) The Council's risk management framework has been made available on the intranet and training has been provided to all senior managers on its operation. The Council's risk managers review the risks identified and

offer support and challenge to services on their identified risks. Reporting of risk is now fully integrated with the reporting of service delivery and financial issues.

- 44) 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, 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.

Recommendation

- 45) Members are asked to confirm that the above report gives an accurate reflection of the reports that they have received and considered throughout the year.
- 46) Members are also asked to confirm that they now 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.

This page is intentionally left blank