

## SHEFFIELD CITY COUNCIL

### Audit and Standards Committee

#### Meeting held 14 September 2017

**PRESENT:** Councillors Josie Paszek (Chair), Adam Hanrahan (Deputy Chair),  
Dianne Hurst and Pat Midgley

Co-opted Independent Members  
Liz Stanley

**In attendance** Representatives of KPMG  
Tim Cutler (Partner)  
Matt Ackroyd (Manager)

Councillor Olivia Blake (Cabinet Member for Finance)

Council Officers  
Eugene Walker (Executive Director, Resources)  
Gillian Duckworth (Director of Legal and Governance)  
Dave Phillips (Head of Strategic Finance)  
Kayleigh Inman (Senior Finance Manager, Internal Audit)  
Matthew Ardern (Senior Finance Manager, Strategic Finance)  
Ruth Matheson (Finance Manager, Strategic Finance)  
Paul Robinson (Principal Committee Secretary)

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#### **1. APOLOGIES FOR ABSENCE**

- 1.1 An apology for absence was received from Councillor Alan Law.

#### **2. EXCLUSION OF THE PRESS AND PUBLIC**

- 2.1 No items were identified where resolutions may be moved to exclude the press and public from the meeting.

#### **3. DECLARATIONS OF INTEREST**

- 3.1 Councillor Pat Midgley declared a personal interest in agenda item 6 (2016/17 Statement of Accounts and the External Auditor's Report to Those Charged With Governance – ISA 260) as a Council-appointed Director of the Manor and Castle Development Trust.

#### **4. APPROACH TO BUDGET AND BUSINESS PLANNING**

- 4.1 The Committee considered (a) a report of the Director of Policy, Performance and Communications providing an overview of the Council's current approach to budget and business planning, and setting out the proposed approach to the next planning cycle and (b) comments made by the Executive Director, Resources and the Cabinet Member for Finance highlighting that the proposed approach aimed to produce a Council budget that was more closely focussed on outcomes aligned

with the priorities within the new Corporate Plan.

- 4.2 **RESOLVED:** That the Committee (i) welcomes the Council's approach to budget and business planning, as described in the report; and

(ii) places on record its recognition of the efforts of, and demands placed on, the employees of the Council during the past 7 years of budget reductions.

## **5. MINUTES OF PREVIOUS MEETING**

- 5.1 The Committee (a) approved as a correct record, the minutes of its meeting held on 13 July 2017 and (b) noted information reported by the Chair (Councillor Josie Paszek) that, further to paragraph 5.6 (ii) of the minutes, an equalities implications section would be introduced within reports submitted to the Licensing Committee and Sub-Committee in order to demonstrate compliance with the Public Sector Equality Duty in relation to licensing activities.

## **6. 2016/17 STATEMENT OF ACCOUNTS AND THE EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260)**

- 6.1 The Committee considered a report of the Executive Director, Resources that communicated any relevant matters arising from the external audit of the 2016/17 Statement of Accounts. Appended to the report were the Statement of Accounts and the External Auditor's Report to those Charged with Governance (ISA 260).
- 6.2 Dave Phillips (Head of Strategic Finance) presented the report, indicating that a number of minor misstatements and presentational errors had been identified by officers as a result of ongoing work on the draft accounts, and others had been identified as a result of the external audit of the accounts, and the necessary amendments had been made to the Statement of Accounts and agreed with the External Auditors. He stated that the External Auditors intended to issue an unqualified audit opinion on the Statement of Accounts, but would not be able to issue a Certificate of Completion of the Audit until work has been concluded on the outstanding objections to items of account received from local electors. He added that these objections related to the Council's Lender Option Borrower Option (LOBO) loans, and the Council's Private Finance Initiative Schemes, and that, due to the formal process necessary to deal with the objections, it was highly unlikely that the statutory deadline of 30<sup>th</sup> September for the completion of the audit would be achieved. He also commented that the External Auditors had reported an unqualified Value for Money conclusion, i.e. that, subject to the outcome of the investigations with regards to the public objections raised, the Auditors had concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. Finally, Mr. Phillips referred to the fact that an earlier statutory closedown deadline will be introduced for the 2017/18 accounts and, as part of preparations for that, the Council had worked to earlier deadlines for the production of the 2016/17 draft accounts.
- 6.3 Tim Cutler (Partner, KPMG) commended the work undertaken by officers in the

Council to prepare the draft Statement of Accounts by early June, particularly in view of the fact that key personnel had been absent and a new general ledger had been introduced in the early part of the 2017/18 financial year. He referred to the audit areas where work was still outstanding, which included property, plant and equipment; testing of data in relation to National Non-Domestic Rates and Council Tax receivable and payable; receipt of external confirmation to support the Borrowings figures; journals; and several queries on income and expenditure items, and stated that following the finalisation of that outstanding work, KPMG would review the updated financial statements.

- 6.4 In response to questions from Members of the Committee regarding the objections to the accounts which had been received from local electors, Tim Cutler outlined the assessment criteria, set out in National Audit Office guidance, which is used to determine whether an objection is to be formally accepted for investigation, and commented that, potentially, it may take several months to investigate, conclude and report on the objections received. Dave Phillips reported that there were 19 loans involved in the objection relating to LOBO loans, and a significant amount of information was involved, and added that work was already underway to compile and supply the information requested by KPMG to assist the investigation of the objection.
- 6.5 Matt Ackroyd (Manager, KPMG) introduced the external audit of the accounts, in particular, referring to and commenting upon (a) the four significant audit risks (significant changes in the pension liability due to LGPS Triennial Valuation; valuation of property, plant and equipment; prepayment of pension; and new core financial system) identified in the financial statements in section 1 of the KPMG report, (b) the other financial statements in section 1 of the report, which related to one other area of audit focus (disclosures associated with retrospective restatement of Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and Movement in Reserves Statement); the level of prudence within key judgements in the 2016/17 financial statements; the audit differences and position on the proposed opinion; and accounts production and audit process and (c) the value for money conclusion set out in section 2 of the report, and the assessment of the one significant value for money risk identified in relation to financial resilience with a particular focus on the performance of Social Care. In terms of the appendices to the report, Mr. Ackroyd referred to (i) the key issues identified during the audit work and the recommendations agreed with Council management in relation to three high priority issues relating to impairment review, rolling programme of valuations and independence of Valuer, and the further four medium priority issues and two low priority issues, as outlined in Appendix 1, (ii) the progress on the implementation of the six recommendations agreed in relation to the 2015/16 audit, as outlined in Appendix 2, (iii) details of the three significant audit differences identified in the audit, and the seven additional disclosures required, as outlined in Appendix 3 and (iv) the audit fees detailed in Appendix 6.
- 6.6 Officers and the representatives from KPMG responded to questions from Members of the Committee as follows:-
- Further to the query made by Liz Stanley regarding Transport Services'

trading operations in 2015/16 and 2016/17, Ruth Matheson (Finance Manager) undertook to obtain further details and respond directly to Ms. Stanley.

- Dave Phillips explained the difference between earmarked and un-earmarked reserves, and confirmed that un-earmarked reserves had reduced from £12.6m at the end of 2015/16 to £9.6m at the end of 2016/17 as a result of the budget overspend in 2016/17. The intention was to restore the level of un-earmarked reserves to its previous level during 2017/18, as this was the minimum prudent level recommended by the Council's Section 151 Officer.
- Eugene Walker (Executive Director, Resources) and Matthew Ardern (Senior Finance Manager) explained the rationale for the early payment, from Reserves, of planned 2017/18 to 2019/20 employer pension deficit contributions, as an invest to save measure securing a significant reduction in the total amount due, and stated that the Council's Reserves would be replenished over that period.
- The overstating of income and expenditure by £193m in Children, Young People and Families had been due to a formula error. Improved quality assurance processes should reduce the potential for administrative errors occurring in the future.
- Following comments made regarding local authorities' responsibilities/liabilities where school academy trust operators withdraw from schools, Eugene Walker and Gillian Duckworth (Director of Legal and Governance) commented that although local authorities do not have a direct legal responsibility for the provision of education to pupils of academies, and would not have a legal responsibility for the liabilities of an academy over and above any contingent liabilities between the authority and the academy, local authorities nevertheless still retain an overarching responsibility for children in their areas.
- Following a comment regarding the extent of corporate contributions made to reduce the overall level of overspend on the 2016/17 budget, Dave Phillips referred to the significant budgetary pressures caused by increasing levels of demand for social care services for children and adults. He stated that recovery plans were being put in place designed to achieve sustainable budgets in the medium term, but that forecast overspends in the short term would have to be assisted by the identification of corporate contributions, as had been the case in 2016/17, where such contributions included use of Independent Living Fund resources, management of capital resources, lower than anticipated redundancy costs, release of planned contingencies, for example.
- The position on levels of, and trends on, arrears were outlined. Dave Phillips stated that every effort was made to maximise income and reduce levels of arrears, and Eugene Walker outlined the debt recovery strategies used by the Council, adding that the proportion of uncollected income was

extremely low in comparison to the proportion of income that was collected by the Council. The forthcoming introduction of the Government's Universal Credit benefit scheme was expected to impact adversely on the Council's income collection rates, despite the Council operating a Council Tax hardship scheme.

**6.7 RESOLVED:** That the Committee:-

(A) accepts the Report to Those Charged with Governance (ISA 260) 2016/17;

(B) approves the Statement of Accounts for 2016/17;

(C) authorises the Chair of the Committee to sign (i) the Letter of Management Representations in order to conclude the audit and (ii) the Statement of Accounts; and

(D) thanks officers of the Finance Team for their work on the Statement of Accounts and the audit team at KPMG for their work on the ISA 260 report, particularly in view of the additional demands caused by the earlier closedown deadlines.

**7. INTERNAL AUDIT ANNUAL REPORT 2016/17**

7.1 Kayleigh Inman (Senior Finance Manager, Internal Audit) submitted the Internal Audit Annual Report 2016/17 that highlighted the work that had been undertaken by Internal Audit during the year and which supported the Council's Annual Governance Statement (AGS). Appended to the report were (a) the Internal Audit Quality Assurance and Improvement Programme, (b) the Internal Audit structure, (c) the Internal Audit Post Audit Questionnaire and (d) a summary of the key actions arising from the medium-high opinion audit reports.

7.2 In particular, the Senior Finance Manager stated that (i) comparative statistics for 2016/17 from the core cities in terms of the cost of the audit function, had yet to be released, but would be reported to members of the Committee as soon as they were made available, (ii) the extent to which agreed recommendations arising from audit reports had been implemented, had generally improved during 2016/17 and (iii) from the work undertaken by Internal Audit during that year, she was satisfied that the Council's core systems include control arrangements which are adequate to allow the Council to conduct its business appropriately.

7.3 **RESOLVED:** That the contents of the report now submitted on the work undertaken by Internal Audit during 2016/17, and the opinion of the Chief Audit Executive (Senior Finance Manager) in relation to the adequacy of the Council's system of internal control, as set out in paragraphs 60 to 62 of the report, be noted.

**8. UPDATE ON STANDARDS COMPLAINTS**

8.1 The Director of Legal and Governance introduced a report providing a summary of the outcome of the 16 complaints received to date in 2017 under the Procedure

for Dealing with Standards Complaints regarding City, Parish and Town Councillors and Co-opted Members that was adopted by Full Council at its meeting on 25 March 2015.

- 8.2 The Director rehearsed the requirements, under the Localism Act 2011, for local authorities to promote high standards of Member conduct, adopt a Code of Conduct, and put in place a process for investigating complaints. She outlined the Council's Procedure for Dealing with Standards Complaints, highlighting the three courses of action that were available following initial assessment of the complaint by herself in consultation with one of the Independent Persons, and which were to take no action, take other action through informal resolution, or refer the matter for investigation.
- 8.3 In terms of "live" complaints, the Director stated that one complaint was awaiting initial assessment, and two complaints from 2016 were to be considered at a meeting of the Consideration Sub-Committee in the near future.
- 8.4 In response to a query from a Member of the Committee, the Director reported that she had provided training to Members of Ecclesfield and Bradfield Parish Councils on the Members' Code of Conduct and the Standards Complaints Procedure, and would continue to develop the relationships with all three of the City's Parish and Town Councils in relation to Member conduct.
- 8.5 **RESOLVED:** That the contents of the report now submitted, and the information now reported, be noted.

## **9. WORK PROGRAMME**

- 9.1 The Director of Legal and Governance submitted a report providing details of an outline work programme for the Committee to July 2018.
- 9.2 The Chair (Councillor Josie Paszek) reported that Dave Ross, Democratic Services, who had administered the Committee's work programme for several years, would retire from the Council prior to the Committee's next meeting.
- 9.3 **RESOLVED:** That (a) the work programme now submitted be approved, subject to the item on Strategic Risk Management, scheduled for the meeting in November 2017 being rescheduled for the meeting in January 2018; and
- (b) the thanks and appreciation of the Committee be conveyed to Dave Ross for the excellent work carried out by him in supporting the work of the Committee over many years.

## **10. DATES OF FUTURE MEETINGS**

- 10.1 It was noted that meetings of the Committee would be held at 5.00 p.m. on:-
- 16 November 2017
  - 14 December 2017 (additional meeting if required)
  - 11 January 2018

- 8 February 2018 (additional meeting if required)
- 8 March 2018 (additional meeting if required)
- 12 April 2018
- 14 June 2018
- 26 July 2018

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