

Audit Committee

Thursday 14 November 2013 at 6.00 pm

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

The Press and Public are Welcome to Attend

Membership

Councillors Ray Satur (Chair), Joe Otten (Deputy Chair), Anders Hanson, Steve Jones, Martin Lawton and Sioned-Mair Richards.

Independent Co-opted Members

Mrs Beryl Seaman and Mr Rick Plews.

PUBLIC ACCESS TO THE MEETING

The Audit Committee is a key part of the Council's corporate governance arrangements. The Committee has delegated powers to approve the Council's Statement of Accounts in accordance with the Accounts and Audit Regulations 2003 and consider the Annual Letter from the Auditor in accordance with the Accounts and Audit Regulations 2003 and to monitor the Council's response to individual issues of concern identified.

A copy of the agenda and reports is available on the Council's website at www.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, or you can ring on telephone no. 2734552. You may not be allowed to see some reports because they contain confidential information. These items are usually marked * on the agenda.

Recording is allowed at Audit Committee meetings 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 Dave Ross on 0114 273 5033 or email dave.ross@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 COMMITTEE AGENDA
14 NOVEMBER 2013**

Order of Business

- 1. Welcome and Housekeeping Arrangements**
- 2. Apologies for Absence**
- 3. Exclusion of Public and Press**
To identify items where resolutions may be moved to exclude the press and public.

(Note: The report at item 10 (Strategic Risk Management) is not available to the public and press because it contains exempt information described in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended)
- 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 - 10)
To approve the minutes of the meeting of the Committee held on 25 September 2013.
- 6. South Yorkshire Digital Region: Progress on Management Response** (Pages 11 - 16)
Joint report of the Director of Finance and the Director of Creative Sheffield.
- 7. Annual Audit Letter 2012/13** (Pages 17 - 26)
Report of the Director, KPMG.
- 8. Progress on Internal Audit Reports with a High Opinion** (Pages 27 - 44)
Report of the Assistant Director Finance.
- 9. Progress on Compliance with the Public Sector Internal Auditing Standards** (Pages 45 - 98)
Report of the Assistant Director Finance.
- 10. Strategic Risk Management** (Pages 99 - 118)
Report of the Executive Director, Resources.

(Note: The report is not available to the public and press because it contains exempt information described in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended)

11. Work Programme

(Pages 119 - 124)

Report of the Director of Legal and Governance.

12. Dates of Future Meetings

To note that meetings of the Audit Committee will be held on:

- Thursday 12 December (additional meeting if required)
- Thursday 9 January 2014
- Thursday 13 February (additional meeting if required)
- Thursday 13 March (additional meeting if required)
- Thursday 10 April

ADVICE TO MEMBERS ON DECLARING INTERESTS AT MEETINGS

New standards arrangements were introduced by the Localism Act 2011. The new regime made changes to the way that members' interests are registered and declared.

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, and has been published on the Council's website as a downloadable document at -<http://councillors.sheffield.gov.uk/councillors/register-of-councillors-interests>

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 Standards Committee in relation to a request for dispensation.

Further advice can be obtained from Lynne Bird, Director of Legal Services on 0114 2734018 or email lynne.bird@sheffield.gov.uk

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Audit Committee

Meeting held 25 September 2013

PRESENT: Councillors Ray Satur (Chair), Joe Otten (Deputy Chair), Anders Hanson, Steve Jones and Sioned-Mair Richards.

Co-opted Independent Members
Beryl Seaman and Rick Plews.

Officers in attendance
John Mothersole (Chief Executive), Eugene Walker (Director of Finance), Allan Rainford (Deputy Director of Finance, Strategic Finance), Mike Thomas (Senior Finance Manager), Lynne Bird (Director of Legal and Governance), Laura Pattman (Assistant Director Finance, Business Partnering and Internal Audit), Kayleigh Inman (Senior Finance Manager, Internal Audit), John Prentice (Director, KPMG), David Phillips (Senior Manager, KPMG) and Dave Ross (Principal Committee Secretary).

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1. APOLOGIES FOR ABSENCE

1.1 An apology for absence was received from Councillor Martin Lawton.

2. EXCLUSION OF PUBLIC AND PRESS

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 There were no declarations of interest.

4. MINUTES OF PREVIOUS MEETING

4.1 The minutes of the meeting of the Committee held on 9 July 2013 were approved as a correct record.

5. STATEMENT OF ACCOUNTS 2012/13 AND EXTERNAL AUDITOR'S REPORT (ISA 260)

5.1 The Deputy Director of Finance introduced a report of the Executive Director, Resources that communicated any relevant matters arising from the audit of the 2012/13 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). The Deputy Director indicated that the overall financial position had not changed to that indicated in the Summary of the Accounts considered by the Committee on 9 July 2013. An unqualified opinion was expected from the

external audit of the Accounts.

External Auditor's Report to those Charged with Governance (ISA 260)

- 5.2 The Council's External Auditor, John Prentice, Director KPMG, introduced his 'Report to Those Charged with Governance' (ISA 260) that summarised the key issues identified during the audit of the Council's financial statements for the year ended 31 March 2013 and his assessment of the Council's arrangements to secure value for money in its use of resources. He highlighted the headline messages and anticipated issuing an unqualified audit opinion and value for money conclusion by 30 September 2013. A certificate could not be issued to close the 2012/13 audit before the work on the objections to the 2011/12 accounts was completed in approximately 8 weeks' time.
- 5.3 Mr Prentice outlined the proposed audit opinion and audit differences, the key risks affecting the financial statements (these included the Council's savings plans, Digital Region Limited and the Highways Private Finance Initiative), accounts production and audit process, the control environment, completion of the audit, specific value for money risks, the key issues and recommendations from the audit relating to Digital Region and the follow-up of the recommendations from the 2011/12 audit.
- 5.4 In respect of the outstanding objection to the accounts relating to the former South Yorkshire Trading Standards Unit, the Chief Executive outlined the current legal position with the other three local authorities and indicated that he would be able to confirm the course of action to be taken at the next meeting of the Committee.
- 5.5 In response to questions from Members of the Committee relating to Digital Region and the recommendations in the External Auditor's report, the Chief Executive indicated that he did not wish for the proposed independent review to affect the winding up of the organisation. The review should involve the four South Yorkshire local authorities and the Government. It was not possible at this time to provide details of potential timescales as the terms of reference for the review had not yet been drafted. However, the Chief Executive would be in a position to provide further information to the next meeting of the Committee.
- 5.6 Officers responded to further questions from members of the Committee relating to earmarked reserves and the control environment.

Statement of Accounts

- 5.7 In response to questions from members of the Committee on the Communities' budget position and Adult Social Care, the Chief Executive indicated that the Directors of Resources and Communities were implementing a recovery plan and this would bring significant challenges. There was also a review of care packages. Service pressures and reductions in NHS funding were affecting other budget areas and this had been exacerbated by poor forecasting of care packages and not taking account of available resources and projecting the cumulative impact. A number of care packages would not have been agreed at

the original level and there had been an over provision of care packages compared to the available budget. There were further additional related issues in respect of demographics and people being transferred from hospital to community care.

5.8 The Chief Executive further stated that an Internal Audit led review was taking place on the issues relating to Adult Social Care and the final report would be made available to members of the Committee.

5.9 Officers responded to questions from members of the Committee relating to short term debtors, the Council's liability under admitted body status with the South Yorkshire Pensions Authority, the Comprehensive Spending Review, the Commercial Estates and Transport Services trading operations, the Housing Revenue Account surplus, the un-earmarked reserve and the deficit on Schools Accounts.

5.10 **Resolved:** That the Committee:-

- (a) accepts the Report to those Charged with Governance (ISA 260) 2012/13;
- (b) approves the Statement of Accounts for 2012/13;
- (c) requests the Chair of the Audit Committee to sign (i) the Letter of Management Representations to conclude the audit and (ii) the Statement of Accounts;
- (d) requests that, arising from the recommendations in the External Auditor's ISA 260 report relating to Digital Region:-
 - (i) the Director of Finance and Director of Creative Sheffield submit a report to the 14 November 2013 meeting of the Committee on progress on the management response to the recommendation that "the Council should ensure it has appropriate arrangements to manage the closure of Digital Region Limited to reduce the financial impact on the Council " and
 - (ii) the Chief Executive reports to the 14 November 2013 meeting outlining the process and timescales for the independent review of the Digital Region project;
- (e) requests the Deputy Director of Finance to circulate to members of the Committee further information on the difference in the accounting surplus/deficit figures in the Statement of Accounts for Commercial Services and Transport Services in 2011/12 and 2012/13;
- (f) requests the Chief Executive to report to the meeting of the Committee on 14 November 2013 on the course of action being taken in relation to the former South Yorkshire Trading Standards Unit;
- (g) notes that the final report from Internal Audit on Adult Social Care would be circulated to members of the Committee in due course;

- (h) requests the Executive Director Resources/Executive Director Communities to circulate to members of the Committee further information on the financial impact for the Council of the reduction in NHS funding for Continuing Health Care;
- (i) thanks the Deputy Director Finance, Clair Sharratt (Finance Manager) and the Finance Team for their work on the Statement of Accounts; and
- (j) thanks the Director, Senior Audit Manager and the Audit Team at KPMG for their work on the Report to those Charged with Governance (ISA 260).

6. INTERNAL AUDIT ANNUAL REPORT 2013

6.1 The Senior Finance Manager (Internal Audit) introduced a report that highlighted the role of Internal Audit and the work undertaken during 2012/13 and which supported the Council's Annual Governance Statement. The report provided an executive summary of audit opinion and information on the planning process, audit reporting and services reviews. Appended to the report were the Internal Audit Charter, structure and Protocol and a client questionnaire.

6.2 Officers responded to questions from members of the Committee relating to the process where management did not agree to recommendations from Internal Audit reports and the reporting routes for the Senior Finance Manager acting as the Chief Audit Executive.

6.3 **Resolved:** That the Committee:-

- (a) notes the contents of the report now submitted and the opinion of the Chief Audit Executive (Senior Finance Manager);
- (b) approves the revised Internal Audit Charter as required by the Public Sector Internal Audit Standards; and
- (c) requests that arrangements are made for:-
 - (i) a private meeting to be held before meetings of the Committee with the External Auditor and Internal Audit to discuss any issues of concern, with the meetings held at the request of the External Auditor or the Committee and
 - (ii) a private meeting between the External Auditor and the Committee to be held at least once a year.

7. WORK PROGRAMME

7.1 The Director of Legal and Governance submitted a report that provided details of a proposed draft work programme for the Committee for 2013/14.

7.2 **Resolved:** That the Committee approves the work programme for 2013/14 with

the inclusion of items on Digital Region and South Yorkshire Trading Standards.

8. DATE OF NEXT MEETING

8.1 It was noted that meetings of the Committee would be held at 6.00 p.m. on:-

- Thursday 14 November
- Thursday 12 December (additional meeting if required)
- Thursday 9 January 2014
- Thursday 13 February (additional meeting if required)
- Thursday 13 March (additional meeting if required)
- Thursday 10 April

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Audit Committee Report

Report of: Eugene Walker and Edward Highfield

Date: 14 November 2013

Subject: South Yorkshire Digital Region: Progress on management response

Author of Report: Eugene Walker 0114 273 5872
Edward Highfield 0114 223 2349

Summary:

This report updates Audit Committee on progress on the management response to the recommendation from the External Auditor's ISA 260 report that "the Council should ensure it has appropriate arrangements to manage the closure of Digital Region Limited to reduce the financial impact on the Council"

Recommendations:

Audit Committee is recommended to note the steps being taken and comment on any further actions considered necessary.

Background Papers: None

Category of Report: OPEN

* Delete as appropriate

Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: E Walker
Legal Implications
NO – not of this specific report
Equality of Opportunity Implications
No
Tackling Health Inequalities Implications
NO
Human rights Implications
NO:
Environmental and Sustainability implications
NO
Economic impact
YES
Community safety implications
NO
Human resources implications
NO
Property implications
NO
Area(s) affected
All
Relevant Cabinet Portfolio Leader
Cabinet Member for Finance
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

Digital Region: Progress on the management response to the recommendation from the External Auditor’s ISA 260 report that “the Council should ensure it has appropriate arrangements to manage the closure of Digital Region Limited to reduce the financial impact on the Council”

1. Previous position reported to Audit Committee

- 1.1 Members of the Audit Committee will be aware that Digital Region Limited (DRL) is a company set up to provide high speed broadband access across South Yorkshire. It was initially jointly owned by the four South Yorkshire local authorities and Yorkshire Forward, but with effect from 30th March 2012 Yorkshire Forward’s rights and obligations in relation to DRL have transferred to the Department for Business, Innovation and Skills (BIS).
- 1.2 Unfortunately history will judge that the original business plan was based on technological and trading assumptions that have been overtaken by events. The Committee have previously therefore been made aware that DRL could no longer continue to trade based upon previous operating models.
- 1.3 At the time of the last report to Audit Committee, each of the Shareholders had agreed to provide further temporary funding to enable the company to operate in order to allow time for further exploration of the operating model. In reality this meant either;
- Re-procurement of a new commercial partner to take on the risks of running of the network, or
 - Closure – should that be the cheaper option

2. Current Position

- 2.1 The decision has now been taken to close Digital Region Limited. At the heart of this decision was the length of time it was likely to take to get a definitive decision regarding State Aid from the European Commission and the rules around where future operating subsidy could be applied. The consequence was that the risks and costs of closure became demonstrably less than the re-procurement option.
- 2.2 A number of interlinked work streams are therefore now underway:

2.2.1 For Digital Region Limited:

- Asset realisation: Either the full or partial sale of the network with the objectives of realising best value for the tax payer and maintaining as much of the economic and social value envisaged by the original project as possible.
- Preparing for closure: serving termination notices to existing agreement and planning the orderly migration of customers off the network should the sale option not be viable.
- Seeking to minimise costs e.g. SPV costs, exposure to European funding claw back and driving costs down through commercial negotiation below the closure base case.

2.2.2 For Sheffield City Council:

- Ensuring any sale option represents best value and adequately provides for SCC services currently delivered over the network
- Making alternative arrangements for SCC services currently delivered over the DRL network should the sale option neither be forthcoming nor acceptable.

3. Arrangements to manage the closure of Digital Region Limited to reduce the financial impact on the Council

3.1 Arrangements to manage the closure of Digital Region cover a wide range of aspects across company, shareholder and customer roles.

3.2 SCC continues to have a seat on the DRL Board. The company Director must at all times act in the best interests and its Creditors. The DRL company is reducing in size with key staff retained to manage the closure and wind down period. A full exit plan was presented to the Board on 3rd October covering

- Asset realisation
- Commercial contracts
- Migration
- Operator termination
- Operator decommissioning
- EU Commission
- Finance
- Resources plan

- Communications and information management
 - Corporate contracts
 - Facilities and closure
- 3.3 PricewaterHouse Coopers have been appointed by DRL to oversee the sale process, provide specialist insolvency support to the company executive and provide assurance to the Board around the closure programme.
- 3.4 The Council Chief Executive represents SCC as Shareholder including discharging matters reserved for Shareholder decisions rather than the Board of Directors under delegated authority.
- 3.5 An officer from Commercial Services is overseeing SCC's own customer migration requirements and providing advice to DRL and the other Shareholders on the commercial aspects of the wind down and sale scenarios. SCC is therefore both providing support to assist DRL and scrutiny of DRL activity to ensure all costs are being driven down wherever possible.
- 3.6 Rotherham Council on behalf of the other shareholders is providing Finance support to monitor actual closure costs against the base case, reported to the DRL Board and via local authority Directors of Finance (see Finance section below).
- 3.7 SCC officers have established an internal project board including IT, Legal, Commercial Services and Finance to oversee implementation of SCC's own deliverables.

4. Financial position

- 4.1 At the time of making the decision to close the company and migrate its business (including the Council's) to other networks, the cost to the shareholders was estimated at £83.3m. SCC's share of this is £14.3m. Critically, this was a lower cost than the likely cost of continuing with the procurement and also less risky – because the big problem on re-procurement was the unknown timescales for resolving the EU state aid question. Assuming State aid approval would have taken until March 2014, re-procurement costs would have been over £95m.
- 4.2 The SCC cost of £14.3m is within the amount of money set aside to cover DRL costs in the 2012/13 accounts (£15m was set aside).
- 4.3 All of these figures were based on estimates and some costs cannot be firmed up until existing contracts are terminated and commercial negotiations on termination costs or replacement contracts are concluded. However, since the decision was made to close, progress has been good and costs so far look like they will come in lower than was estimated. The

key issue remaining is the value that may result from a sale of the assets and whether that reintroduces risk.

Eugene Walker
Director of Finance

Edward Highfield
Director of Creative Sheffield

AUDIT COMMITTEE REPORT - 14 NOVEMBER 2013

**ANNUAL AUDIT LETTER 2012/13
Report of the Director, KPMG.**

Recommendation

That the Annual Audit Letter is noted.

Category of Report - Open

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cutting through complexity™

Annual Audit Letter 2012/13

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Sheffield City Council

October 2013





Contents

The contacts at KPMG in connection with this report are:

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Report sections

- Headlines

Appendices

1. Key issues and recommendations
2. Summary of reports issued
3. Audit fees

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gsi.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.



Section one Headlines

This report summarises the key findings from our 2012/13 audit of Sheffield City Council (the Council).

Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Council's 2012/13 financial statements and the 2012/13 VFM conclusion.

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VFM conclusion	<p>We issued an unqualified value for money (VFM) conclusion for 2012/13 on 27 September 2013.</p> <p>This conclusion means we were satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
Risk areas	<p>We identified a number of significant risks to our audit opinion and VFM conclusion and considered the arrangements you have put in place to mitigate these.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> ■ The Council successfully delivered its 2012/13 budget, and set a budget for 2013/14 incorporating £49.6m of savings proposals, which are required to enable the Council to deliver a balanced budget. Early in the 2013/14 financial year, the Council identified that there is overspending versus budget within its Adult Social Care service. If uncorrected the Council estimates that this could lead to an £11m overspend in 2013/14. The Council's Director of Corporate Resources is currently leading efforts to address this issue. ■ Digital Region Ltd (DRL). The Council is aware that it, in conjunction with the other three SY Metropolitan Councils, decided in August 2013 to wind-up DRL, the company set up to provide fast digital broadband across South Yorkshire. The SY Councils took this decision with reluctance, given the considerable sums of public money, including EU grant-aid, that were invested in this company. However the Councils' view was that continuing with the venture carried an unacceptable risk of further losses. We reviewed the accounting for the estimated wind-up costs, were satisfied that it is materially correct, and formed the view that we were not required to qualify our 2012/13 vfm conclusion for this matter. However, given the cost to the public purse, we strongly support the Councils' plan to carry out a full independent evaluation of this project to see what lessons can be learned. Recommendations in relation to DRL are included in Appendix 1. ■ South Yorkshire Trading Standards Unit (SYTSU). The Council has still not reached agreement of the sums due from the other three SY Councils. The Council has prepared papers for submission to Court if agreement cannot be reached. Given the lack of any payments to date and protracted delays, the Council needs to set a timeline for concluding negotiations or requesting the Court to proceed to the next stage.
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 27th September 2013. This means that we believe the financial statements gave a true and fair view of the financial position of the Council and of its expenditure and income for the year.</p>



Section one Headlines (continued)

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

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Financial statements audit	<p>The significant findings arising from our financial statements audit were:</p> <ul style="list-style-type: none"> ■ Our audit identified seven audit differences. All were presentational only and none of them impacted on the Movement on the General Fund or Balance Sheet. One amendment did result in the Invest to Save earmarked reserve (which had a negative balance of £25.1m) being offset against the Major Sporting Facilities earmarked reserve. All of these items were adjusted for by the Council. ■ We identified one significant uncorrected difference that was not adjusted by management, as it did not have a material effect on the financial statements. This difference, totalling £8.3m, related to the calculation of the provisions necessary for insurance claims received where, for a number of claims, the Council included the full potential amounts payable as a provision, rather than splitting the balance between a provision and an insurance reserve. ■ The Council continues to produce good quality accounts and working papers. Officers dealt efficiently with audit queries and the audit process was completed within the planned timescales.
Annual Governance Statement	<p>We reviewed the Council's <i>Annual Governance Statement</i>, and concluded that it was consistent with our understanding.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Council's pack was consistent with the audited financial statements.</p>
High priority recommendations	<p>We raised two high priority recommendations as a result of our 2012/13 audit work, both in relation to DRL as discussed earlier. These recommendations are detailed in Appendix 1, together with the action plan agreed by management.</p> <ul style="list-style-type: none"> ■ The Council should ensure it has appropriate arrangements to manage the closure of DRL to reduce the financial impact on the Council. ■ The Council should commission a full independent review of the DRL project to identify the lessons that should be learned. This review should be carried out as soon as possible and jointly with the other stakeholders.
Certificate	<p>We cannot issue a certificate to close the 2012/13 audit before the work on the two objections to the Council's 2011/12 financial statements is completed. A decision has been issued in relation to the objection on the accounting for South Yorkshire Trading Standards Unit, although we await confirmation that there has not been a High Court appeal. We intend to issue revised provisional views shortly in relation to the taxi licensing objection. Due to these objections, the certificate to close the 2011/12 audit also remains outstanding.</p>
Audit fee	<p>Our total fees for 2012/13 were £277,260 excluding VAT. These fees includes the scale fee of £247,860 compared to a scale fee of £413,100 for 2011/12. Further detail is contained in Appendix 3.</p>



Appendix 1: Key issues and recommendations

This appendix summarises the high priority recommendations that we identified during our 2012/13 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

We will hold a debrief meeting with your Finance Manager (Strategic Finance) to discuss the learning points from this year's audit, including minor issues that we have not formally reported.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	The Council should ensure it has appropriate arrangements to manage the closure of DRL to reduce the financial impact on the Council.	Agreed – Chief Executive. Project plan is in place and will be kept under review as the closure progresses.
2	The Council should commission a full independent review of the Digital Region Project to identify the lessons that should be learned. This review should be carried out as soon as possible and jointly with the other stakeholders.	Agreed – Chief Executive. Specification should be agreed by 30 November. Further timetable will depend upon arrangements made but will be set out by 30 November.

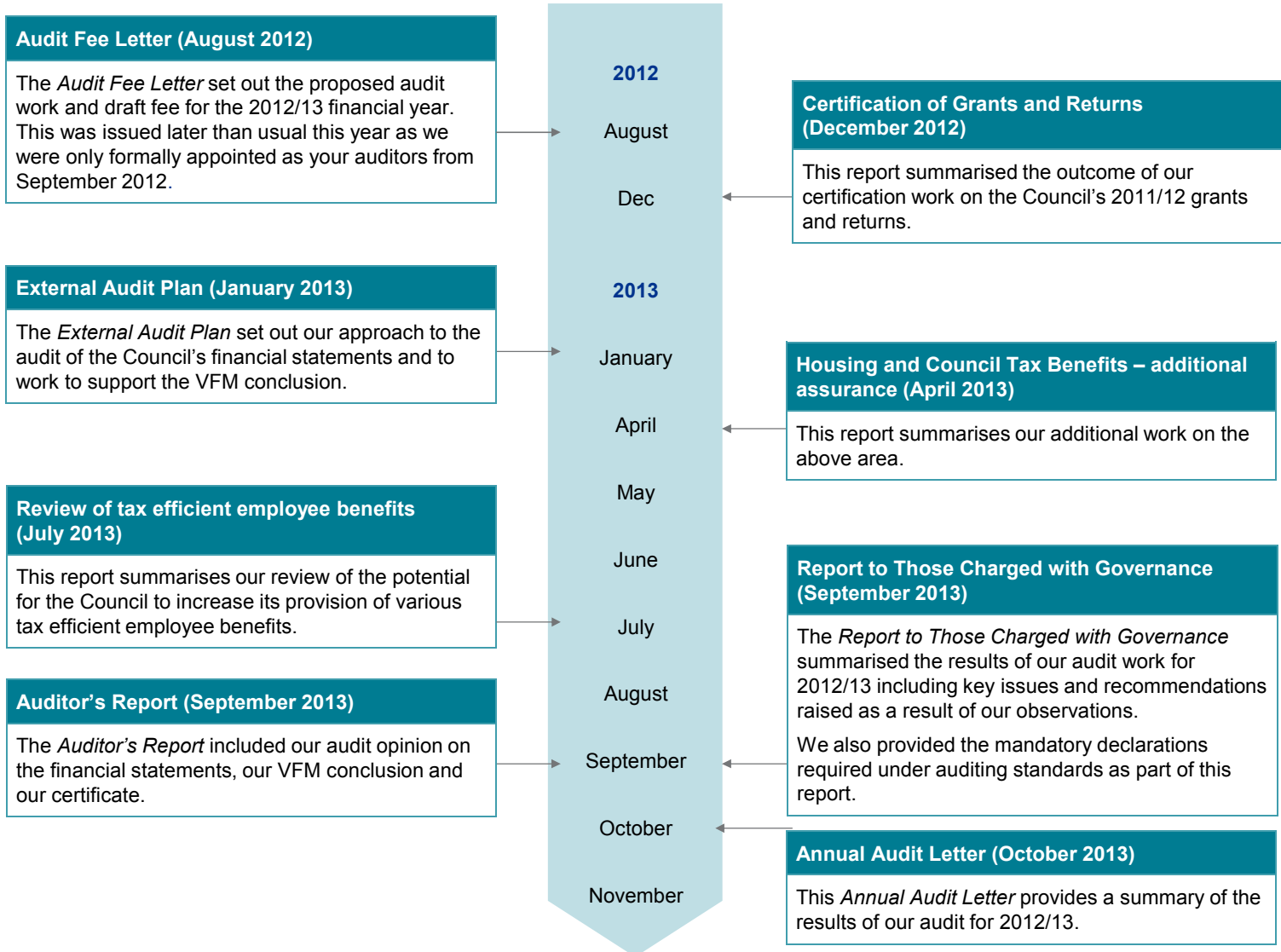


Appendices

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

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This appendix provides information on our final fees for 2012/13.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

External audit

Our final fee for the 2012/13 audit of the Council was £252,760. This is an overall reduction of 39% on the comparative total fee for 2011/12 of £413,100 (before the Audit Commission rebate of £33,048). This reflects the significant reductions made nationally by the Audit Commission to its scale fees.

The final fee compares to a planned fee of £247,860. The reason for this variance is that we agreed with officers a fee of £4,900 for extra work, which was not allowed for in our initial plan. This work reflected the additional costs incurred in considering the impact on the Council's financial statements and on our value for money conclusion of the Council's decision (in conjunction with its partner SY Metropolitan Councils) to terminate its arrangement with Digital Region Ltd to provide broadband across South Yorkshire.

Our fees are still subject to final determination by the Audit Commission.

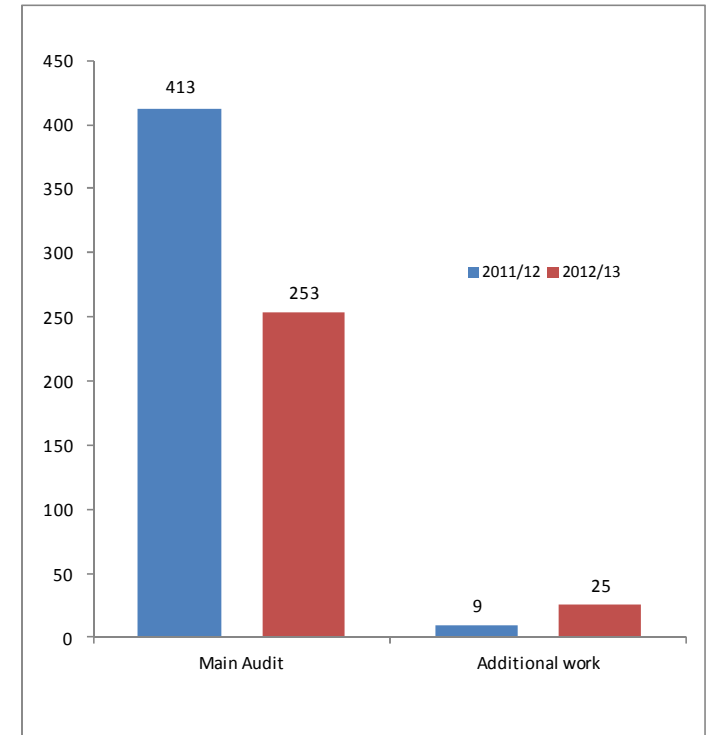
Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13* which we are due to issue in January 2014.

Other services

Other work was undertaken at the Council's request. We charged £15,000 for a review of tax efficient employee benefits and £9,500 for additional assurance work reviewing the Council's arrangements for compiling its benefits claim. This work was not related to our responsibilities under the Audit Commission's *Code of Audit Practice*.

External audit fees 2012/13 (£'000)





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Audit Committee Report

REPORT OF	Assistant Director of Finance	DATE 14 th November 2013
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SUBJECT	Progress on High Opinion Audit Reports
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SUMMARY	The attached is the report of the Assistant Director of Finance providing an updated position on Audit Reports issued with a high opinion.
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RECOMMENDATIONS	Sheffield City Council Audit Committee to note the contents of the Report and agree to remove the following audits:
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Marketing Sheffield, Place
Cash Handling Appointeeships in Residential Homes, Communities
Register Office, Resources

FINANCIAL IMPLICATIONS CLEARED BY	No K Inman	PARAGRAPHS
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BACKGROUND PAPERS

CONTACT POINT FOR ACCESS	K Inman	TEL NO. 273 5608
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**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: K Inman
Legal implications
YES /NO
Equality of Opportunity implications
YES /NO
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
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council? YES/NO
Press release
YES /NO

**REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE
14 November 2013**

Internal Audit Report on Progress Against High Opinion Audit Reports.

Purpose of the Report

1. The purpose of this 'rolling' report is to present and communicate to members of the Audit Committee progress made against recommendations in audit reports that have been given a high opinion.

Introduction

2. 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.
3. This report provides an update to the Audit Committee on high opinion audit reports previously reported. Where Internal Audit has yet to undertake follow up work, the relevant Portfolio Directors were contacted and asked to provide Internal Audit with a response. This included indicating whether or not the recommendations agreed therein have been implemented to a satisfactory standard. Internal Audit clearly specified that as part of this response, Directors were to provide specific dates for implementation and that this was required by the Audit Committee.

This report also details those high opinion audits that Internal Audit plan to remove from future update reports. The Audit Committee is asked to support this.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from the report.

EQUAL OPPORTUNITIES IMPLICATIONS

There are no equal opportunities implications arising from the report.

RECOMMENDATION

That the Audit Committee notes the content of the report and approves the removal of the following reports:

Marketing Sheffield, Place
Cash Handling Appointeeships in Residential Homes, Communities
Register Office, Resources

Laura Pattman

Assistant Director of Finance, Business Partner and Internal Audit

**SHEFFIELD CITY COUNCIL
UPDATED POSITION ON HIGH OPINION AUDIT REPORTS AS AT 14 NOVEMBER 2013**

1. UTC Special Investigation (Resources). (Issued to the Audit Committee 07 August 2013).

As at November 2013

Internal Audit: This report was issued to management on the 28 June 2013. Therefore an update will be provided in the next high opinion update report.

2. Self Directed Support (Communities). (Issued to the Audit Committee 23 April 2013).

22 recommendations were agreed in the report; the latest position with regard to the implementation of recommendations is:

- 14 actions had been implemented;
- 8 actions were being progressed – details of implementation dates are provided in the narrative below:

It should be acknowledged that a formal recovery programme is in place in the Communities Portfolio and implementation of some of the recommendations has been influenced by wider activity.

Ref	Recommendation	Priority	Original Responsible Officer	Original implementation date	Updated position as at 4 th October 2013, provided via the Interim Director of Care and Support – Moira Wilson
2.1	The Social Care Accounts Service should review potential fraud risks that may arise from Direct Payments and the risk assessment should contain mitigating controls and actions for each identified risk. The Service should clearly understand the identified fraud risks and how to respond in the event that fraud is detected.	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford - Customer Accounts Team Manager & Lee Woolway - Business Service & Systems Manager	31/07/2013 Revised implementation date: 31/10/13	Risk analysis outstanding. To complete by 15/10/13. However lean work, the reassessment and review project and investing in the monitoring team have mitigated most risks. Fraud and misuse protocol being drawn up following lean work during August '13. Will be a protocol between SCAS and A&CM to ensure escalation and resolution using both SCAS intervention and A&CM support plan review powers. This protocol is part of the ASC Recovery Plan and is reporting to Recovery Operations Group for approval. To complete by 31 Oct 13.

2.2	When making amendments to bank details for the payment of Direct Payments, officers should apply the existing procedure, i.e. bank details are initially verified with a call, any amendments are detailed in a signed letter, by the service user or an individual on behalf of the service user, and then a phone call verification check is performed using the original number held prior to the amendment.	High	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Lee Woolway - Business Service & Systems Manager	Stated as having been actioned at the time of the audit Action complete	Action Complete.
2.3	Every time there is an amendment to service user's details, a Request for a New / Amend Supplier form should be consistently completed in full, and if not, then the amendment to the service user's details should not be made. It is recommended that this requirement should be communicated to all members of the Direct Payments team, with a reminder of the protocol.	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Lee Woolway - Business Service & Systems Manager	Stated as the IT options appraisal having commenced	Action Complete.
2.4	The process for recharging the NHS for the continuing Direct Payments that SCC provides should be documented.	Medium	Liz Orme - Assistant Director of Finance (Business Partnering Communities, Revenues and Benefits)	30/04/2013 Revised implementation date: 11/10/13	Discovery Session held on 27/9/13 defining the NHS (CCG) service requirements and identifying all concerns and problems with business systems and processes. This will then create project lines to improve and define the business processes the NHS require. This will include service user identification and recharge arrangements. Clear plan of action to be completed by 11/10/13. A protocol was agreed with NHS CHC in July '13 for NHS CHC to pay approx £0.5m p/m and for service user lists to be shared to verify and adjust payments accordingly.
2.5	A formal agreement between SCC and the PCT for the payment of Direct Payments should be put in place.	High	Liz Orme - Assistant Director of Finance (Business Partnering Communities,	30/04/2013 Revised	General agreement in place for the PCT (now Clinical Commissioning Group) to pay £500k p/m up front, with follow-on verification was made in July '13.

					respond to achieve compliance. This is expected to go live in June '14.
2.8	<p>Management should develop procedures to ensure that service users, Suitable People or the service users with a nominated Direct Payment agent in receipt of a Direct Payment pay for employer's liability insurance and can demonstrate that they have paid this insurance, either via a direct debit on their bank statement or an insurance certificate. Failure to provide this evidence should result in alternative measures, such as a Council arranged service being considered. Any unverified past Direct Payments for insurance should be reclaimed.</p> <p>It is a legal requirement for employers to purchase employers liability insurance unless exempt. Non-compliance is subject to financial penalties. The legal position of SCC should be ascertained if a claim is made, but the service user does not have employer's liability insurance.</p>	High	<p>Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager)</p> <p>Ellie Crawford - Customer Accounts Team Manager</p>	<p>31/07/2013</p> <p>Revised implementation date: 31/10/13</p>	<p>Built into DP Monitoring Protocol (see line 1) and the business process re-design completed in August '13 and going fully live by end of October '13 (see line 7).</p> <p>A new Money Management Protocol has also started (16/9/13) re-stating the obligations of money management agencies in fulfilling their duties under the Direct Payment Agreement.</p> <p>A refresh of Direct Payment User Guidance is being produced (section regarding "Employing a PA") which will be released by end of October '13. This guidance supplements the Direct Payment Agreement. This agreement (section 2.5 in the DP Agreement) clarifies DP Users agree that "any legal charges and tax obligations related to any staff that the Recipient ... employs will be their responsibility, that they will abide by employment law and that they will be responsible for PAYE income tax arrangements". Therefore there is no liability to the Council.</p> <p>Liability insurance is checked in DP Monitoring and advised for pricing in when DP is being set up.</p>
2.9	There should be sufficient detail in the monitoring returns provided for the audit team to be able to gain the necessary level of assurance and verify the expenditure to the outcomes. If not, and the monitoring is	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager)	<p>Stated as having been actioned at the time of the audit</p> <p>Action complete</p>	Action Complete.

	<p>deemed inadequate to gain the level of assurance required, additional evidence should be requested.</p> <p>If the monitoring information provided is continuously insufficient, after repeated efforts to obtain more detailed monitoring, then a service user should receive additional support until adequate records are provided.</p> <p>If it is a Direct Payment Agent who is providing weak assurances on behalf of a service user then the continuation of Direct Payment to the Agent should be reviewed and any unverified past Direct Payments reclaimed.</p>		Ellie Crawford - Customer Accounts Team Manager		
2.10	It is recommended that management conduct a review of the Direct Payment monitoring system.	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford - Customer Accounts Team Manager	28/02/2014	Action Complete. Reviewed and being implemented. Full implementation expected by end of October 13.
2.11	Monitoring that has been received and has not been processed, such as information from the fourth alphabetical group and the Direct Payment Agents, needs to be processed as a matter of urgency. Any outstanding queries along with any new queries that have arisen as a result of the additional information processed needs to be identified and resolved	High	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford - Customer Accounts Team Manager	Stated as having been actioned at the time of the audit Action complete	Action Complete.
2.12	If the reasonable steps taken to obtain a service users monitoring return repeatedly fails, then the alternative options to obtain the monitoring should be proactively explored and encouraged. Whether this is a family member / friend managing their money, a managed account or a Council arranged	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford -	Revised implementation date: 31/10/13	Action to complete by end Oct '13. See lines 10, 7 and 1.

	service.		Customer Accounts Team Manager		
			Actioned		
2.13	Social Care Assessors should be reminded that when they perform visits to service users who receive Direct Payments themselves, via a suitable person, or via a Direct Payment Agent, they should check whether a service user's support plan outcomes are being delivered with the services being received. If inadequacies are identified then these should be reported to the Social Work Assessment Team.	Medium	Robert Broadhead - Head of Service, Assessment and Care Management & Josie Bennett - Head of Joint Learning Disabilities Service	Stated as having been actioned at the time of the audit Action complete	Action Complete.
2.14	The Direct Payments procedures which are currently being drafted and reviewed should ensure that they incorporate guidance on flexible spending to assist the Social Care Accounts Team when a service user calls.	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford - Customer Accounts Team Manager	31/07/2013 Revised implementation date: 31/10/13	Team already understands extent of flexibility allowed as long as the Support Plan outcomes are being met, and already understand that if any uncertainty then to refer to A&CM. Guidance protocol to be written by end of October '13 as part of the DP Monitoring Procedures.
2.15	In situations where the service user's "suitable person" is providing paid support to the service user, all vetting undertaken should be clearly recorded. In addition any expenditure should be monitored more frequently.	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford - Customer Accounts Team Manager	Stated as having been actioned at the time of the audit Action complete	Action Complete.
2.16	Where an employer (service user) is not employing their personal assistant correctly and not paying for expenses that they have received a Direct Payment for, additional support may be required. Any unverified past Direct Payments made to the service user,	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager)	Stated as having been actioned at the time of the audit Action complete	Action Complete.

	for employer expenses, should be reviewed and reclaimed.		Ellie Crawford - Customer Accounts Team Manager		
2.17	An accreditation system for organisations that receive Direct Payments from SCC should be developed, implemented and subsequently evaluated. This should include financial checks and the controls in place to monitor these companies after they receive Direct Payments.	High	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford - Customer Accounts Team Manager	31/07/2013	24/09/13 Money Management Protocol agreed and live 16/9/13. Action Complete.
2.18	Recoverable Direct Payments should be identified and pursued. In order to facilitate this and fully maximise any monies to be returned, appropriate records should be maintained and managed	High	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford - Customer Accounts Team Manager	31/01/2014	24/09/13 Action Complete (and ongoing).
2.19	All service user and Direct Payment Agent bank account balances should be checked to ensure that they do not hold any unspent monies. Any funds held in the account after 8 weeks should be returned to the Council, except money held for agreed future expenditure	High	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford - Customer Accounts Team Manager	31/07/2013	24/09/13 Complete and ongoing. Team are completing 400 audits p/m. Policy to reduce surplus from 8 to 4 weeks started implementation 16/9/13. Action Complete.
2.20	The closure income collected from estates or Direct Payment agents of the deceased service user should be reconciled to identify where it is from, whether all outstanding monies have been collected and any outstanding bills have been paid.	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford -	31/07/2013	Estate Closure procedure reviewed and implemented in June '13. Action Complete.

			Customer Accounts Team Manager		
2.21	Direct Payment Agents that have been identified as not returning monies following the death of one of its service users should be contacted and if non compliance continues then the Direct Payments that they receive from Sheffield City Council should be reviewed	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Ellie Crawford - Customer Accounts Team Manager	31/07/2013	Action complete but ongoing in the revised DP Monitoring process. Action Complete.
2.22	Authorised amendments that have been received should be processed as a matter of urgency	Medium	Julie Knight - Head of Care & Support & Jan Appleby - Social Care Accounts Service (Service Manager) Lee Woolway - Business Service & Systems Manager	Stated as having been actioned at the time of the audit Action complete	Action Complete.

3. Marketing Sheffield (Place). (Issued to the Audit Committee November 2012).

From the 25 recommendations originally raised, Internal Audit identified 31 distinct, agreed actions for implementation. Internal Audit has undertaken a number of pieces of follow-up work at the request of the Audit Committee. The latest position with regard to the implementation of recommendations is:

- 17 actions had been implemented;
- 5 actions were not implemented, or evidenced;
- 9 actions had not been implemented, but were on-going pending further development.

Position reported to the Audit Committee July 2013
The Director of Marketing Sheffield provided a report on 1 of the 5 actions that had not been implemented. Additionally, the Executive Director provided verbal assurance that the remaining 4 had been actioned.
As at September 2013
Internal Audit is to undertake a light touch review of Marketing Sheffield in 14/15 to provide assurance that the recommendations have been implemented, that the service was now fully embedded within Sheffield city Council and that controls were in place.
Internal Audit propose to remove this audit from future update reports.

4. Cash Handling Appointeeships in Residential Homes (Communities). (Issued to the Audit Committee February 2012).

Position reported to the Audit Committee in the Jan 2013 update report					
Internal Audit: Follow up work was undertaken in September 2012. The follow up work concluded that from the original 12 recommendations, six had been completed and work was either planned or partially completed with a target date of March 2013 for all the remaining actions. Internal Audit has provided management with more detailed feedback to strengthen the Appointeeships Procedural Guidelines in place.					
As at May 2013					
Progress updates from the Head of Service were provided on those 6 outstanding recommendations as noted above. Of these 5 had been completed.					
As at November 2013					
An update on the one action outstanding was requested from the Head of Care and Support. See below narrative.					
4.1	Management should ensure that: <ul style="list-style-type: none"> • Fraud risk assessments are carried out incorporating appointeeships and deputyships, at least annually; • All irregularities identified are reported and investigated in line with Financial Regulations and 	Medium	Head of Care &, Support. Senior Contracts Officer.	29.06.12 Later revised to 31.12.12.	Updated position from Head of Care and Support September 25 2013: Adult ACM staff have commenced fraud risk awareness training. 16 have completed so far and therefore we will be performance

corporate guidance on fraud & irregularity; and • The recovery of losses due to fraud or theft is pursued.		Head of Assessment & Care Management.	Now to be completed 31.03.14	managing this to ensure 50% completed by Christmas and a further 50% by 31 st March 2014.
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Internal Audit propose to remove this audit from future update reports.

5. Risk Management (Place). (Issued to the Audit Committee May 2012).

As per Jan 2013 update report

Internal Audit: No further update was requested from the responsible Director as follow up work was undertaken in October 2012. The follow up audit work concluded that of the 12 recommendations agreed, 6 had been fully actioned across all service areas within Place. Of the remaining 6 actions:

- 5 had been implemented to service area level but it was acknowledged by the Director of Business Strategy & Regulation that work to further embed risk management procedures in a minority of services was on-going. He further confirmed that as such it was not appropriate to provide a firm end date for this.
- 1 action with regard to the review of project risk management arrangements remained outstanding as this was pending the development of corporate risk management arrangements.

Comments were provided by the Place Programme Manager acknowledging that there were areas of weakness where implementation was ongoing or needed to begin. These are produced below:

There will be further implementation of the Corporate Risk Management Framework in the lower management tiers where this has not already taken place, alongside implementation across all service areas of a robust Quality Assurance process around the identification, description and assessment of risks. There will be ongoing review of the management of risk actions and removal of risks as appropriate in a timely manner.

As at July 2013

Progress was requested on the 6 outstanding recommendations. The Programme Manager in Place provided an update which indicated that 2 had been completed.

As at September 2013

Internal Audit requested progress on the outstanding 4 recommendations. The response is noted below.

Update on the 4 outstanding recommendations, as at October 2013:

ref	Recommendation Outstanding	Priority	Original Responsible Officer	Original Implementation Date	Update from Programme Manager, Place. May 2013
5.1	Management should ensure that: • there are formally defined processes in place for the management of risks from business activities up to	High	Director of Business Strategy &	02.07.12	Updated position provided from Services to Programme Manager, Place – who subsequently provided information to

	<p>strategic management;</p> <ul style="list-style-type: none"> • processes comply with the SCC Risk Management Framework; • processes are endorsed by Portfolio Leadership Team; • all appropriate operational, management and senior management are made formally aware of the processes; • controls are formally defined to ensure adherence to the defined processes and • Non-compliance to the defined processes is promptly and formally reported to the appropriate Director in the first instance and the full Portfolio Leadership Team. 		Regulation		<p>Internal Audit as follows: Place has been subject to changes at service level since the follow up and this is reflected in the response. Services RM Co-ordinators provided statements and evidence, to show that risk is fully embedded at all levels within the Portfolio. It was noted that a risk management plan was required for Capital & Major Project Service (C&MP) as this was a new service area. No date was provided for this.</p> <p>Update position from RM Coordinator Capital & Major, Place October 2013:</p> <p>There are risk management plans in place for the different services that now make up the recently formed Capital and Major Projects. Risks are discussed at SMT meetings and covered in service highlight reports. Work is ongoing to rebrand these plans under the 'Capital and Major Projects Risk Management Plan' and this is expected to be completed by 31.12.13.</p> <p>Action incomplete</p>
5.2	<p>In order to appropriately embed and comply with the principles of the Corporate Risk Management Framework, Place Risk Management procedures should require service area and service level Risk Management plans to be compiled. Co-ordinators should ensure that within their respective service areas, formal governance arrangements are in place to ensure:</p> <ul style="list-style-type: none"> • all managers maintain up to date and reliable risk management plans for the activity/business unit; • all Heads of Service manage and maintain risk 	High	Director of Business Strategy & Regulation	02.07.12 31.05.13	<p>Updated position provided from Services to Denise Turner – who subsequently provided information to Internal Audit as follows:</p> <p>Completed for the majority of services, however, due to changes and movement in services, work has been agreed but has still to be developed in C&MP.</p> <p>Work is still in progress to ensure that sub</p>

	<p>management plans/service risk & assurance logs for their service area that clearly demonstrate where risks have been escalated up from activities/business units risk registers;</p> <ul style="list-style-type: none"> • the above documents are periodically reviewed and challenged by the Co-ordinator and are used as the basis for defining a Portfolio wide risk management plan clearly demonstrating where risks have been escalated up from the service area risk management plans where applicable. • Portfolio risk management plans and service risk & assurance logs are submitted and reported to the Place Risk Management Group for review and are used as the basis for that Group to define the Portfolios risk management plan, again clearly demonstrating where risk have been escalated up from the services' risk management plans. <p>As a principle, Portfolio procedures should ensure that risks are being managed at the most appropriate level within the management hierarchy.</p> <p>A clear governance and naming hierarchy for Place should be developed and implemented that ensures a consistent approach to Risk Management plans.</p>				<p>service areas in Creative Sheffield have risk management plans – this is to be rectified by the end of May 2013.</p> <p>Action Incomplete</p> <p>Update from RM Coordinator, Creative Sheffield, Place October 2013:</p> <p>“By the deadline of the end of May, we had introduced or improved sub-section risk management plans for:</p> <p>The enterprise programme; RGF The Jessica fund (SCRUDF Appendix 4)); and The Keep Sheffield Working Fund (strategy).</p> <p>These represent the key elements of our work that we believe require specific plans”.</p> <p>Action complete for Creative Sheffield, still outstanding for C&MP – see 5.1</p>
5.3	<p>Place risk management procedures should require the adoption of the minimum criteria for the risk management plan format. Risk Management Co-ordinators should ensure that all services within their respective Services Areas have up to date risk management plans, minimum criteria (as defined in the CRMF), and adequate description of risks and review of timescales.</p>	Medium	Director of Business Strategy & Regulation	02.07.12	<p>In place for the majority of services, work planned for the new services introduced ie: C&MP, Regeneration and Development Services (RDS). No date given for this.</p> <p>Action Incomplete</p> <p>Update position from C&MP, Regen & Dev Service, Place, October 2013:</p> <p>C&MP – As per the comment above re Risk number 5.1.</p>

As per Jan 2013 update report

Internal Audit: A follow up review is planned as part of the 2013/14 audit plan.

Director of Legal Services response:

“Of the 29 recommendations made by Internal Audit that were agreed or partially agreed 17 have been completed.

Eight of the 10 high risks have been completed the 2 that have not are as follows - payment of clergy, which will be virtually complete by the end of November 2012 and guidance on data protection, which will be completed by 31st March 2013.

Of the 15 risks categorised as medium 8 have been completed. The 7 outstanding actions identified as medium will be prioritised between December 2012 and March 2013 with a view to completion by 31st March 2013. These include: drawing up the communications plan, undergoing training on fraud assessment, preparation of a fraud plan and fraud assessment, reviewing fees, reviewing stock control, and providing a key policy.

Of the 4 low risks 1 has been completed. The remaining 3 recommendations identified as low, which include ensuring adequate version control and ownership of procedures, noting the date of incoming NCS applications on the form and filing in date order and providing fact sheets at key customer points will be progressed through the year and completed by August 2013”.

As at May 2013

The updated position was compiled from regular written, evidenced updates provided to Internal Audit and from a response from the new Director for the service.

As at April 2013, IA concluded from the evidence received that:

From the original 29 agreed recommendations 26 have been implemented. 1 recommendation given a low priority relating to the Nationality Checking Service is to be completed by August 2013. The remaining 2 actions, both with a medium priority, have been actioned, however will be subject to further work following the transfer to Customer Services on the 1st April 2013.

Director of Customer Services also provided this response:

“The Register Office has now formally transferred to Customer Services as at 1st April 2013. I received an update from the previous service manager on the latest position which is as you have outlined. In addition, I have asked that the follow up audit takes place early in 2013/14 as we have a project team working within the service and we can pick up on any issues that are outstanding or have not been completed in line with your recommendations. This has been agreed with the designated Audit Manager and the audit work has been initiated. The audit and subsequent follow up are really welcomed and support a number of opportunities and improvements that I have already identified for the service going forward”.

As at September 2013

Internal Audit carried out a follow up review in June 2013 and can confirm that the two actions below that were outstanding as at May 2013 have now been completed.

Update on the 2 outstanding recommendations.

ref	Recommendation Outstanding	Priority	Original Responsible Officer	Original Implementation Date	Update from Service Manager Business and Registration Service - March 2013.
6.1	Management should develop a communications plan or similar which identifies the key stakeholders of the service. The plan should include as a minimum the various methods, timescales and requirements of each stakeholder.	Medium	Director of Legal Services	11.03.13	<p>Customer Services Communications Plan to be amended when RO transfer to Customer Services.</p> <p>Action Incomplete as at May 2013.</p> <p>Updated position 6th September 2013: A follow up audit was conducted by Internal Audit in June 2013 and this action is completed.</p>
6.2	To improve tracking, the Nationality Checking Service (NCS) team should note the date the NCS applications are posted on the copy checklist, the client care sheets held and the form detailing the applications posted each day. Applications should be filed and maintained in date order.	Low	Director of Legal Services	<p>12.08.13</p> <p>Revised to 31.08.13</p>	<p>This will be completed by August 2013.</p> <p>Action Incomplete as at May 2013.</p> <p>Updated position 6th September 2013: A follow up audit was conducted by Internal Audit in June 2013 and this action is completed.</p>

Internal Audit propose to remove this audit from future update reports.



Audit Committee Report

REPORT OF	Assistant Director Finance – Business Partnering and Internal Audit	DATE
		14/11/2013

SUBJECT	Compliance with the ‘Public Sector Internal Auditing Standards’ (PSIAS), which become mandatory on the 1st April 2013.
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SUMMARY	This report summarises the progress made to ensure compliance with the Public Sector Internal Auditing Standards and highlights the work still required. The PSIAS checklist has been completed to inform the assessment.
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RECOMMENDATIONS

That members note where progress has been made in implementing the new standard.

That members endorse the work to be undertaken to ensure compliance with the PSIAS.

FINANCIAL IMPLICATIONS CLEARED BY	No Laura Pattman	PARAGRAPHS
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BACKGROUND PAPERS

CONTACT POINT FOR ACCESS	Laura Pattman	TEL NO. 273 5763
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CATEGORY OF REPORT

Open

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: L Pattman
Legal implications
YES /NO
Equality of Opportunity implications
YES /NO
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
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council? YES/NO
Press release
YES /NO

REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE

14th November 2013

Assistant Director of Finance Report – Public Sector Internal Audit Standards (PSIAS)

PURPOSE OF THE REPORT

1. This report summarises the evaluation results of the PSIAS compliance checklist and highlights where additional work is still required.

BACKGROUND

2. The **Public Sector Internal Audit Standards (PSIAS)** came into force on 1 April 2013, and aims to promote further improvements in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
3. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adapted for the public sector.
4. The PSIAS replace the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006*. Sheffield City Councils' Internal Audit service currently complies with the requirements of the CIPFA Code of Practice, and this is referred to in the Job Descriptions of all auditors.
5. The Chief Audit Executives are expected to report conformance on the PSIAS in their annual report. Any instances where an authority takes a different approach to the standard should be reported. Any significant variations must be considered for inclusion in the Annual Governance Statement.

Summary of the Standards

6. The PSIAS contains :
 - Section 1 – Introduction
 - Section 2 - Applicability
 - Section 3 – Definition of Internal Audit (changed slightly from that included in the CIPFA Code of Practice)
 - Section 4 – Code of Ethics (in line with the CIPFA Code of Practice)
 - Section 5 – Standards – split into Attribute Standards and Performance Standards. (broadly in line with the CIPFA Code of Practice)

Evaluation Checklist

7. In order to assist authorities in assessing compliance with the PSIAS, the IIA have developed a checklist which allows self-evaluation as part of the required Quality Assurance and Improvement Programme.
8. I have completed the checklist and have attached this to the report for information (Appendix A).
9. As reported in April, the 2 main areas where our local arrangements differ from the standard are : reporting arrangements and remuneration (falls within the Independence and Objectivity Attribute Standard) and external assessments (falls within the Quality Assurance and Improvement Programme Attribute Standard).

Requirements of the PSIAS

Attribute Standards

1000 – Purpose, Authority and Responsibility

10. The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. This document should establish the internal audit activity's position within the organisation, including the nature of the 'Chief Audit Executives' functional reporting relationship with the board; authorises access to records, personnel and property relevant to the performance of engagements and defines the scope of internal audit activity. It must also cover arrangements for appropriate resourcing, and defining the role of internal audit in fraud-related work.

Current Arrangements in Internal Audit

11. The Internal Audit Charter has been reviewed and updated to reflect the new reporting arrangements. This was submitted and approved by the Audit Committee in September 2013.

1100 – Independence and Objectivity

12. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner. To achieve the degree of independence necessary, the CAE must have direct and unrestricted access to senior management and the board.
13. The CAE must report functionally to the board, and establish effective communication with the Chief Executive and Chair of the Audit Committee.
14. Governance arrangement in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring his

or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. This can be achieved by ensuring the Chief Executive (or equivalent) undertakes, countersigns or contributes feedback to the performance appraisal of the CAE.

Current Arrangement in Internal Audit

15. The CAE reports functionally to the Assistant Director of Finance rather than to a member of the Executive Management Team. This arrangement has been endorsed by the Director of Finance and the Executive Director, Resources.
16. There are no barriers to reporting audit issues corporately when the need arises, and this is outlined in the Audit Charter. I am currently preparing a Declaration of Endorsement which will formally demonstrate approval of the reporting access to the Executive Director, Resources, the Chief Executive and the Chair of the Audit Committee. I will submit this to the Audit Committee with the Annual Report for 2014.
17. The remuneration of the CAE is determined in line with Council-wide HR procedures and standard pay structures and this arrangement will not change. For the 2014/15 appraisal cycle, feedback will be sought from the Chief Executive (or equivalent).

1300 – Quality Assurance and Improvement Programme

18. The CAE must maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This should enable an evaluation of the internal audit activity's conformance with the PSIAS.
19. The quality assurance and improvement programme must include both internal and external assessments. External Assessments must be undertaken every 5 years by a qualified, independent assessor /assessment team from outside the organisation.
20. The CAE must communicate the results of the quality assurance and improvement programme to senior management and the board, in the annual report. Instances of non-conformance must be reported to the board.

Current Arrangement in Internal Audit

21. This is a new requirement and currently there are no arrangements for an independent external assessment to be undertaken. The feasibility of 'peer reviews' within the Core Cities Chief Auditors Group are actively being considered and developed.
22. Internal Assessments to monitor the on-going performance of Internal Audit are already carried out on a quarterly basis. The periodic assessment of compliance with the PSIAS will be incorporated into the annual 'quality audit'

using a self-assessment methodology. This review is scheduled to be undertaken in December 2013.

23. The attached table summarises the progress made to date with implementing the new requirements and any work further required to be undertaken by Internal Audit. This is an updated version of the table provided to the Audit Committee in April.

Performance Standards

24. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.
25. There are no fundamental differences between the new PSIAS Performance Standards and the CIPFA Code of Practice and therefore the current arrangements are considered to be satisfactory, with some minor areas of improvement.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from the report.

EQUAL OPPORTUNITIES IMPLICATIONS

There are no equal opportunities implications arising from the report.

RECOMMENDATIONS

That members note where progress has been made in implementing the new standard.

That members endorse the work to be undertaken to ensure compliance with the PSIAS.

Laura Pattman
Assistant Director of Finance

Requirement	Local Procedure	Work Required	Progress
Produce a formal document that defines the internal audit activity's purpose, authority and responsibility.	This is currently included in the Internal Audit Charter and Terms of Reference.	Amalgamate and update the Internal Audit Charter, Terms of Reference and Protocol into a single Charter. Define 'the Board', Senior Management, and Chief Audit Executive.	Complete Approved by Audit Committee 25.9.13
The CAE must report functionally to the board, in this case the Executive Management Team.	Due, in part to the current economic climate and budget cuts, the CAE reports to the Assistant Director of Finance. However there are no barriers to reporting audit issues corporately when the need arises. Approval for the plan and budgets currently sits with the Director of Finance.	Declaration of Endorsement of reporting arrangements from Executive Director of Resources and/or Chief Executive to be updated and retained. Declaration of reporting arrangements to be included in the CAE annual report on compliance with the PSIAS.	Declaration currently being drafted. A copy will be reported to the Audit Committee with the 2014 Annual report.
Establish effective communication with the Chief Executive and Chair of Audit Committee.	Already in Place	Declaration of Endorsement of reporting arrangements from Director of Resources and/or Chief Executive to be updated and retained.	Declaration currently being drafted. A copy will be reported to the Audit Committee with the 2014 Annual report.
The remuneration of CAE to be approved by the board. The Chief Executive (or	Remuneration is determined in line with formal pay structures and HR Policies and Procedures.	Include arrangements for determining remuneration of CAE in annual report.	No further action required.

<p>equivalent) carries out, countersigns or contributes feedback to the performance appraisal of the CAE. Feedback is also sought from the Audit Committee Chair.</p>	<p>The CAE will be appraised in line with the Corporate Process by the Assistant Director of Finance.</p>	<p>Seek feedback from the Audit Committee Chair and Director of Finance to contribute to the performance appraisal of CAE.</p>	<p>To introduce for the 2014 appraisal cycle.</p>
<p>Undertake Internal Assessments as part of the quality assurance and improvement programme.</p>	<p>Ongoing monitoring of performance and output is already undertaken and reported.</p> <p>Quality Audits, undertaken annually, in line with BSI standards.</p>	<p>The scope of the Internal Quality Audits is to be reviewed to include compliance with the PSIAS.</p>	<p>Internal Quality Audit scheduled for December 2013.</p>
<p>External Assessment of Compliance with PSIAS every 5 Years, by a qualified, independent assessor/assessment team.</p>	<p>External Audit has scheduled a review of Internal Audit into their 2013/14 work programme.</p>	<p>Explore possibility of a cycle of peer reviews with Core City Authorities, on a cyclical basis.</p>	<p>To raise at next Core Cities meeting expected to be in January 2014.</p>

Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note

This checklist has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Application Note in order to give comprehensive coverage of both documents.

Page 53

Ref	Conformance with the Standard	Y	P	N	Evidence
1	Definition of Internal Auditing				
	Using evidence gained from assessing conformance with other Standards, is the internal audit activity:				
	a) Independent?	Y			As previously included in the CIPFA Code of Conduct. Compliance with this code is documented as a requirement in all auditors job descriptions.
	b) Objective?	Y			
	Using evidence gained from assessing conformance with other	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Standards, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?				
2	Code of Ethics				
Page 54	Integrity				
	Using evidence gained from assessing conformance with other Standards, do internal auditors:				
	a) Perform their work with honesty, diligence and responsibility?	Y			
	b) Observe the law and make disclosures expected by the law and the profession?	Y			
	c) Not knowingly partake in any illegal activity nor engage in in acts that are discreditable to the profession of internal auditing or to the organisation?	Y			
	d) Respect and contribute to the legitimate and ethical objectives of the organisation?	Y			
	Objectivity				
	Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by not:				
	a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) Accepting anything that may impair or be presumed to impair their professional judgement? c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?	Y			
Page 55	Confidentiality Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by: a) Acting prudently when using information acquired in the course of their duties and protecting that information? b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation?	Y			
	Competency Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by: a) Only carrying out services for which they have the necessary knowledge, skills and experience? b) Performing services in accordance with the PSIAS?	Y			
	c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?		P		Some staff are keeping CPD records, but this needs to be promoted more across the whole team

Ref	Conformance with the Standard	Y	P	N	Evidence
	Do internal auditors have regard to the on Standards of Public Life's <i>Seven Principles of Public Life</i> ?		P		A training session will be planned to refresh existing understanding.
	Standards				
3	Attribute Standards				
3.1	1000 Purpose, Authority and Responsibility				
Page 56	Does the internal audit charter include a formal definition of:				Charter revised and approved by the Audit Committee in Sept 2013.
	a) the purpose	Y			
	b) the authority, and	Y			
	c) the responsibility of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?	Y			
LGAN	Does the internal audit charter define the terms 'board' and 'senior management', for the purposes of the internal audit activity? Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.	Y			
	Does the internal audit charter also:				
	a) Set out the internal audit activity's position within the organisation?	Y			
	b) Establish the CAE's functional reporting relationship with the	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	board? c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively?	Y			Non-compliance in that the CAE does not report directly to a member of EMT, however the reporting arrangements have been approved by the S151 officer and Chief Exec. A written endorsement to this effect is being prepared.
LGAN	d) Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit?	Y			
LGAN	e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	Y			
LGAN	f) Define the scope of internal audit activities?	Y			
LGAN	g) Recognise that internal audit's remit extends to the entire control environment of the organisation?	Y			
LGAN	h) Identify internal audit's contribution to the review of effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2011?	Y			
LGAN	i) Establish the organisational independence of internal audit?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
Page 58	j) Cover the arrangements for appropriate resourcing?	Y			
	k) Define the role of internal audit in any fraud-related work?	Y			
	l) Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	Y			
	m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	Y			
	n) Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?		P		Assurance work is undertaken around grant and account sign off activities. Specific Terms of Reference for these activities are produced.
	o) Define the nature of consulting services?		P		To date, there has been no requirement to define consultancy as a block of work. If a specific review was required this would be defined in the terms of reference for that engagement.
	p) Recognise the mandatory nature of the PSIAS?	Y			Presented to Audit Committee 25.9.13

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the CAE attend audit committee meetings?	Y			
	Does the CAE contribute to audit committee agendas?	Y			
	Does the CAE have direct and unrestricted access to senior management and the board?	Y			Declaration of Endorsement being prepared.
	Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?	Y			
	Are threats to objectivity identified and managed at the following levels:	Y			
	a) Individual auditor?	Y			
	b) Engagement?	Y			
	c) Functional?	Y			
	d) Organisation?	Y			
	<i>1110 Organisational Independence</i>				
	Does the CAE report to an organisational level equal or higher to the corporate management team?			N	See below

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	Y			
LGAN	<p>Have reporting and management arrangements been put in place that preserve the CAE’s independence and objectivity?</p> <p>This is of particular importance when the CAE is line managed by another officer of the authority.</p>	Y			CAE line managed by Assistant Director who has other operational responsibilities. Unfettered access to Chief Exec/Exec Director or Resources and Chair of AC if required.
<p>LGAN</p> <p>Page 60</p>	<p>Does the CAE’s position in the management structure:</p> <p>a) Reflect the influence he or she has on the control environment?</p> <p>b) Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board?</p> <p>c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?</p>	<p>Y</p> <p>Y</p> <p>Y</p>			
	<p>Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?</p> <p>The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:</p> <p>The board:</p> <p>a) approves the internal audit charter</p>	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) approves the risk-based audit plan c) approves the internal audit budget and resource plan	Y		N	This is undertaken by Cabinet and Full Council as part of wider budget approval processes.
	d) receives communications from the CAE on the activity's performance (in relation to the plan, for example)	Y			
	e) approves decisions relating to the appointment and removal of the CAE			N	
Page 61	f) seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.	Y			Informed through the CAE Annual Report.
	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?			N	To introduce from April 2014
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?			N	To introduce from April 2014
	<i>1111 Direct Interaction with the Board</i>				
	Does the CAE communicate and interact directly with the board?	Y			
	<i>1120 Individual Objectivity</i>				
	Do internal auditors have an impartial, unbiased attitude?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Do internal auditors avoid any conflict of interest, whether apparent or actual?	Y			
	<i>1130 Impairment to Independence or Objectivity</i>				
	If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	N/A	N/A	N/A
Page 62	Have internal auditors assessed specific operations for which they have been responsible within the previous year?			N	
	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	N/A	N/A	N/A
LGAN	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	Y			
LGAN	Have internal auditors declared interests in accordance with organisational requirements?	Y			Declarations completed annually
LGAN	Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?	Y			Declarations completed annually

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?			N	
LGAN	Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	Y			
LGAN	Have internal auditors complied with the Bribery Act 2010?	Y			
Page 63	If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?	N/A	N/A	N/A	
	Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?	N/A	N/A	N/A	
3.3	1200 Proficiency and Due Professional Care				
	<i>1210 Proficiency</i>				
	Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?	Y			CIPFA
	Is the CAE suitably experienced?	Y			14 years Audit Experience

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?	Y			In conjunction with the Assistant Director of Finance
LGAN	Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?	Y			Generic Job Descriptions have been agreed and implemented across the Finance Service
Page 64	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	Y			
	Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?	N/A	N/A	N/A	
	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	Y			Fraud Awareness Training/ Fraud-watch process Fraud e-learning programme completed by all staff.
	Do internal auditors have sufficient knowledge of key information technology risks and controls?	Y			
	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?		P		1 team focusses on ICT reviews and additional support is purchased via a contract with Salford.

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>1220 Due Professional Care</i>				
Page 65	Do internal auditors exercise due professional care by considering the:				
	a) Extent of work needed to achieve the engagement's objectives?	Y			
	b) Relative complexity, materiality or significance of matters to which assurance procedures are applied?	Y			
	c) Adequacy and effectiveness of governance, risk management and control processes?	Y			
	d) Probability of significant errors, fraud, or non-compliance?	Y			
	e) Cost of assurance in relation to potential benefits?	Y			
	Do internal auditors exercise due professional care during a consulting engagement by considering the:				
	a) Needs and expectations of clients, including the nature, timing and communication of engagement results?	Y			
	b) Relative complexity and extent of work needed to achieve the engagement's objectives?	Y			
	c) Cost of the consulting engagement in relation to potential benefits?		P		A review of charging to be undertaken in 2014
	<i>1230 Continuing Professional Development</i>				

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Has the CAE defined the skills and competencies for each level of auditor?	Y			There are set imperatives for different grade of staff
LGAN	Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	Y			Undertaken during the Appraisal process.
	Do internal auditors undertake a programme of continuing professional development?		P		Need to ensure this is embedded across the whole team.
	Do internal auditors maintain a record of their professional development and training activities?	Y			
	1300 Quality Assurance and Improvement Programme				
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	Y			We undertake an annual Quality Audit which was previously BSI accredited. The scope of the review will be expanded to cover compliance with the PSIAS.
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?		P		
	Does the CAE maintain the QAIP?	Y			
LGAN	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?	Y			Undertaken by External Audit as part of the account sign-off process.

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>1310 Requirements of the Quality Assurance and Improvement Programme</i>				
	Does the QAIP include both internal and external assessments?			N	The potential for external peer review is being explored with Core Cities.
	<i>1311 Internal Assessments</i>				
LGAN	Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?		P		Where resources allow.
Page 67	Do internal assessments include ongoing monitoring of the internal audit activity, such as:	Y			
	a) Routine quality monitoring processes? b) Periodic assessments for evaluating conformance with the PSIAS?		P		
LGAN	Does ongoing performance monitoring include comprehensive performance targets?	Y			The headline targets are reported as part of the Finance Service Plan and included in the CAE Annual Report.
LGAN	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?		P		Defined in the Audit Charter and Terms of Reference for each assignment.
LGAN	Does the CAE measure, monitor and report on progress against these targets?	Y			Quarterly report & Annual Report
LGAN	Does ongoing performance monitoring include obtaining stakeholder feedback?	Y			A client questionnaire is issued with each review.

Ref	Conformance with the Standard	Y	P	N	Evidence
	<p>Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?</p> <p>Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.</p>			N	Peer Reviews with Core Cities to be established.
LGAN	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	Y			
Page 68	<i>1312 External Assessments</i>				
	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?		P		Currently considering core cities peer reviews.
LGAN	Has the CAE considered the pros and cons for the different types of external assessment (ie 'full' or self-assessment plus 'independent validation')?			N	
	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?			N	
LGAN	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?			N	
	Has the CAE agreed the scope of the external assessment with the			N	

Ref	Conformance with the Standard	Y	P	N	Evidence
	external assessor or assessment team?				
	<p>Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process?</p> <p>Competence can be determined in the following ways:</p> <ul style="list-style-type: none"> a) experience gained in organisations of similar size b) complexity c) sector (ie the public sector) d) industry (ie local government), and e) technical experience. <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p>			N	
	How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?			N	
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.			N	
	<i>1320 Reporting on the Quality Assurance and Improvement Programme</i>				
	Has the CAE reported the results of the QAIP to senior management and the board?				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Note that: a) the results of both external and periodic internal assessment must be communicated upon completion		P		Internal assessment is included in the Annual Report.
	b) the results of ongoing monitoring must be communicated at least annually c) the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.		P	N	External Audit review the assurance provided by Internal Audit as part of the account sign-off process.
	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?			N	
	<i>1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'</i>				
	Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?		P		CAE hasn't stated the IA activity conforms as we have not yet undertaken an external assessment.
	<i>1322 Disclosure of Non-conformance</i>				
	Has the CAE reported any instances of non-conformance with the PSIAS to the board?		P		This will be included in the Annual report which is presented in Aug/Sept following the year end.
	Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?		P		Consideration will be given to inclusion in the Finance AGS for 13/14

Ref	Conformance with the Standard	Y	P	N	Evidence
4	Performance Standards				
	Do the results of the internal audit activity's work achieve the purposes and responsibility of the activity, as set out in the internal audit charter?	Y			
	Does the internal audit activity conform with the <i>Definition of Internal Auditing</i> and the <i>Standards</i> ?	Y			
	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the <i>Code of Ethics</i> and the <i>Standards</i> ?	Y			
	Does the internal audit activity add value to the organisation and its stakeholders by				
	a) Providing objective and relevant assurance?	Y			
	b) Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes?	Y			
	<i>2010 Planning</i>				
	Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	Y			Plan takes into account AGS, Risk Register and performance information – and Risk Register makes links to Corporate Objectives

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?	Y			
	Does the risk-based plan take into account the organisation's assurance framework?		P		Block of work introduced to assess main Corporate systems, consideration being given to assurance mapping exercise.
Page 72	Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:	Y			Outlined in the Charter
	a) How the internal audit service will be delivered?				
	b) How the internal audit service will be developed in accordance with the internal audit charter?				
	c) How the internal audit service links to organisational objectives and priorities?			N	These will be incorporated into the 14/15 tactical plan
	Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?		P		Plan is developed considering corporate and portfolio risk registers
	In developing the risk-based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation?	Y			
	If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	N/A	N/A	N/A	

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Does the risk-based plan set out the: a) Audit work to be carried out? b) Respective priorities of those pieces of audit work? c) Estimated resources needed for the work?	Y Y Y			
LGAN	Does the risk-based plan differentiate between audit and other types of work?	Y			RBA, Benefits Investigations, Pro-active Fraud, follow-up audits
LGAN	Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?		P		Reviewed at mid-year, consideration being given to quarterly planning
	Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?	Y			
	Is the internal audit activity's plan of engagements based on a documented risk assessment?	Y			
	Is the risk assessment used to develop the plan of engagements undertaken at least annually?	Y			
LGAN	In developing the risk-based plan, has the CAE also considered the following: a) Any declarations of interest (for the avoidance for conflicts of		P		Declarations of interest are made annually, no directly referenced in plan.

Ref	Conformance with the Standard	Y	P	N	Evidence
	interest)? b) The requirement to use specialists, eg IT or contract and procurement auditors? c) Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary?	Y Y			Contract with Salford for technical IT audits
	d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	Y			
Page 74	Is the input of senior management and the board considered in the risk assessment process?	Y			Quarterly updates with Directors of Business Strategy. Planning meetings with Executive Directors annually. Also some Portfolios discuss with each Director
	Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?	Y			
	Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?			N	Ad-hoc advice is given but Consulting Services are not routinely undertaken
	Are consulting engagements that have been accepted included in the risk-based plan?			N	See above

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2020 Communication and Approval</i>				
	Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?	Y			Presented to the Audit Committee in April annually
	Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?			N	
	Has the CAE communicated the impact of any resource limitations to senior management and the board?	Y			Included in the annual report
	<i>2030 Resource Management</i>				
	Does the risk-based plan explain how internal audit's resource requirements have been assessed?		P		An assessment of resources is undertaken to support the plan, but is not included in the Plan.
LGAN	Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise abortive work and time?	Y			
LGAN	If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board? This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.	Y			Included in the annual report.

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2040 Policies and Procedures</i>				
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	Y			Audit Manual maintained on Shared Drive.
LGAN	Has the CAE established policies and procedures to guide staff in performing their duties in a manner than conforms to the PSIAS? Examples include maintaining an audit manual and/or using electronic management systems.	Y			
Page 76 LGAN	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?	Y			
	<i>2050 Coordination</i>				
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?		N		
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?			N	Proposed to undertake this in 14/15
	Does the CAE share information and coordinate activities with other internal and external providers of assurance and consulting services?		P		
LGAN	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit	Y			Assistant Director of Finance meets with External Audit as part of the protocol.

Ref	Conformance with the Standard	Y	P	N	Evidence
	plans?				
	<i>2060 Reporting to Senior Management and the Board</i>				
	Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?	Y			Annual Report
	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	Y			Annual report will make reference to any issues raised in the AGS Statement.
Page 77	Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?	Y			
	<i>2070 External Service Provider and Organisational Responsibility for Internal Auditing</i>				
	Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	N/A	N/A	N/A	
	Does the internal audit activity evaluate and contribute to the				

Ref	Conformance with the Standard	Y	P	N	Evidence
	improvement of the organisation's governance, risk management and internal control processes?	Y			
	Does the internal audit activity evaluate and contribute to the improvement of the above using a systematic and disciplined approach and is this evidenced?	Y			
	<i>2110 Governance</i>				
Page 78	Does the internal audit activity:				
	a) Promote appropriate ethics and values within the organisation?	Y			
	b) Ensure effective organisational performance management and accountability?	Y			
	c) Communicate risk and control information to appropriate areas of the organisation?	Y			
	d) Coordinate the activities of and communicate information among the board, external and internal auditors and management?	Y			
	Does the internal audit activity assess and make appropriate recommendations for improving the governance process as part of accomplishing the above objectives?	Y			
	Has the internal audit activity evaluated the:				
	a) design			N	Consideration will be given to including this in the 14/15 Plan

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) implementation, and c) effectiveness of the organisation’s ethics-related objectives, programmes and activities?			N N	
	Has the internal audit activity assessed whether the organisation’s information technology governance supports the organisation’s strategies and objectives?	Y			
LGAN	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan?		P		Need to assess for the Ethics element
	<i>2120 Risk Management</i>				
	Has the internal audit activity evaluated the effectiveness of the organisation’s risk management processes by determining that: a) Organisational objectives support and align with the organisation’s mission? b) Significant risks are identified and assessed? c) Appropriate risk responses are selected that align risks with the organisation’s risk appetite? d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?	Y Y	P P		

Ref	Conformance with the Standard	Y	P	N	Evidence
Page 80	Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems regarding the:				
	a) Achievement of the organisation's strategic objectives?	Y			
	b) Reliability and integrity of financial and operational information?	Y			
	c) Effectiveness and efficiency of operations and programmes?	Y			
	d) Safeguarding of assets?	Y			
	e) Compliance with laws, regulations, policies, procedures and contracts?	Y			
	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	Y			
	Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?			N	Consulting engagements are not routinely undertaken.
	Are internal auditors alert to other significant risks when undertaking consulting engagements?			N	Consulting engagements are not routinely undertaken.
	Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2130 Control</i>				
	Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the:				
	a) Achievement of the organisation's strategic objectives?	Y			
	b) Reliability and integrity of financial and operational information?	Y			
	c) Effectiveness and efficiency of operations and programmes?	Y			
	d) Safeguarding of assets?	Y			
	e) Compliance with laws, regulations, policies, procedures and contracts?	Y			
	Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	N/A	N/A	N/A	
4.3	2200 Engagement Planning				
	Do internal auditors develop and document a plan for each engagement?	Y			
	Does the engagement plan include the engagement's:				
	a) Objectives?	Y			Defined in Terms of Reference

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) Scope? c) Timing? d) Resource allocations?	Y Y Y			Defined in Terms of Reference Agreed with Service Manager/DoB Agreed by Audit Manager
Page 82	Do internal auditors consider the following in planning an engagement, and is this documented: a) The objectives of the activity being reviewed? b) The means by which the activity controls its performance? c) The significant risks to the activity being audited? d) The activity's resources? e) The activity's operations? f) The means by which the potential impact of risk is kept to an acceptable level? g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model? h) The opportunities for making significant improvements to the activity's governance, risk management and control processes?	Y Y Y Y Y Y Y Y			
	Where an engagement plan has been drawn up for an audit to a party				

Ref	Conformance with the Standard	Y	P	N	Evidence
	<p>outside of the organisation, have the internal auditors established a written understanding with that party about the following:</p> <p>a) Objectives?</p> <p>b) Scope?</p>	N/A	N/A	N/A	
	c) The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?	N/A	N/A	N/A	
Page 83	<p>For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:</p> <p>a) Objectives?</p> <p>b) Scope?</p> <p>c) The respective responsibilities of the internal auditors and the client and other client expectations?</p>	N/A	N/A	N/A	
	For significant consulting engagements, has this understanding been documented?	N/A	N/A	N/A	
	<i>2210 Engagement Objectives</i>				
	Have objectives been agreed for each engagement?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Have internal auditors carried out a preliminary risk assessment of the activity under review?	Y			
	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?	Y			
Page 84	Have internal auditors considered the probability of the following, when developing the engagement objectives:				
	a) Significant errors?	Y			
	b) Fraud?	Y			
	c) Non-compliance?	Y			
	d) Any other risks?	Y			
	Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished?	Y			
	If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?	Y			
	If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?	Y			Recommendations would be made to Management.

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	If the value for money criteria have been referred to, has the use of all the organisation's main types of resources been considered; including money, people and assets?			N	Consideration will be given to VFM reviews in 14/15.
	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	N/A	N/A	N/A	
	Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?	N/A	N/A	N/A	
Page 85	<i>2220 Engagement Scope</i>				
	Is the scope that is established for the engagement sufficient to satisfy the engagement's objectives?	Y			
	Does the engagement scope include consideration of the following relevant areas of the organisation: a) Systems? b) Records? c) Personnel? d) Premises?	Y Y Y Y			
	Does the engagement scope include consideration of the following relevant areas under the control of outside parties, where appropriate:				

Ref	Conformance with the Standard	Y	P	N	Evidence
	a) Systems? b) Records? c) Personnel? d) Premises?	Y Y Y Y			
Page 86	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?	N/A	N/A	N/A	
Page 86	Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting Standards?	N/A	N/A	N/A	
	For a consulting engagement, was the scope of the engagement sufficient to address any agreed-upon objectives?	N/A	N/A	N/A	
	If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?	N/A	N/A	N/A	
	During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?	N/A	N/A	N/A	

Ref	Conformance with the Standard	Y	P	N	Evidence
	During consulting engagements, were internal auditors alert to any significant control issues?	N/A	N/A	N/A	
	<i>2230 Engagement Resource Allocation</i>				
	Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on: a) The nature and complexity of each individual engagement? b) Any time constraints? c) The resources available?	Y Y Y			
	<i>2240 Engagement Work Programme</i>				
	Have internal auditors developed and documented work programmes that achieve the engagement objectives?	Y			
	Do the engagement work programmes include the following procedures for: a) Identifying information? b) Analysing information? c) Evaluating information?		P P P		Improvements could be made in this area.

Ref	Conformance with the Standard	Y	P	N	Evidence
	d) Documenting information?		P		
	Were work programmes approved prior to implementation for each engagement?	Y			
	Were any adjustments required to work programmes approved promptly?	Y			
Page 88	Have internal auditors carried out the following in order to achieve each engagement's objectives:				
	a) Identify sufficient information?	Y			
	b) Analyse sufficient information?	Y			
	c) Evaluate sufficient information?	Y			
	d) Document sufficient information?	Y			
	<i>2310 Identifying Information</i>				
	Have internal auditors identified the following in order to achieve each engagement's objectives:				
	a) Sufficient information?	Y			
	b) Reliable information?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	c) Relevant information?	Y			
	d) Useful information?	Y			
	<i>2320 Analysis and Evaluation</i>				
	Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations?	Y			
Page 89 LGAN	Have internal auditors remained alert to the possibility of the following:				
	a) intentional wrongdoing	Y			
	b) errors and omissions	Y			
	c) poor value for money	Y			
	d) failure to comply with management policy, and	Y			
	e) conflicts of interest	Y			
	when performing their individual audits, and has this been documented?	Y			
	<i>2330 Documenting Information</i>				
	Have internal auditors documented the relevant information required to support engagement conclusions and results?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?	Y			
	Does the CAE control access to engagement records?	Y			Restricted access to Internal Audit staff only.
	Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?	Y			Most recent examples being FOI requests which were checked with the Information Governance Officer prior to release.
	Has the CAE developed and implemented retention requirements for all types of engagement records?	Y			
	Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?	Y			
	<i>2340 Engagement Supervision</i>				
	Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	Y			
	Is appropriate evidence of supervision documented and retained for each engagement?	Y			
4.5	2400 Communicating Results				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Do internal auditors communicate the results of engagements?	Y			
	<i>2410 Criteria for Communicating</i>				
	Do the communications of engagement results include the following:				
	a) The engagement's objectives?	Y			
	b) The scope of the engagement?	Y			
	c) Applicable conclusions?	Y			
	d) Recommendations and action plans, if appropriate?	Y			
Page 91 LGAN	Has the internal auditor discussed the contents of the draft final report with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	Y			
LGAN	If recommendations and an action plan have been included, are recommendations prioritised according to risk?	Y			
LGAN	If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?	Y			
LGAN	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements?	Y			
LGAN	Do the final communications of engagement results contain, where appropriate, the internal auditor's opinions and/or conclusions, building up to the annual internal audit opinion on the control environment?	Y			
Page 92	When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?	Y			
	When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful information?	Y			
	Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?		P		We generally report on an exception basis, rather than describing satisfactory performance against the areas tested.
	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	N/A	N/A	N/A	
LGAN	If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services?	N/A	N/A	N/A	

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2420 Quality of Communications</i>				
	Are communications:				
	a) Accurate?	Y			
	b) Objective?	Y			
	c) Clear?	Y			
	d) Concise?	Y			
	e) Constructive?	Y			
	f) Complete?	Y			
	g) Timely?	Y			
	<i>2421 Errors and Omissions</i>				
	If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?	Y			
	<i>2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'</i>				
	Do internal auditors report that engagements are ' <i>conducted in conformance with the PSIAS</i> ' only if the results of the QAIP support	N/A	N/A	N/A	We do not include this statement in reports.

Ref	Conformance with the Standard	Y	P	N	Evidence
	such a statement?				
	<i>2431 Engagement Disclosure of Nonconformance</i>				
Page 94	<p>Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:</p> <p>a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?</p> <p>b) The reason(s) for non-conformance?</p> <p>c) The impact of non-conformance on the engagement and the engagement results?</p>	See above			
	<i>2440 Disseminating Results</i>				
	Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	Y			
	Has the CAE communicated engagement results to all appropriate parties?	Y			
	<p>Before releasing engagement results to parties outside the organisation, did the CAE:</p> <p>a) Assess the potential risk to the organisation?</p>	N/A	N/A	N/A	

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) Consult with senior management and/or legal counsel as appropriate? c) Control dissemination by restricting the use of the results?				
	Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	Y			
	<i>2450 Overall Opinion</i>				
Page 95	Has the CAE delivered an annual internal audit opinion?	Y			
	Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control?	Y			
	Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?	Y			
	Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information?	Y			
	Does the communication identify the following: a) The scope of the opinion, including the time period to which the opinion relates?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) Any scope limitations?	Y			Outcomes from AGS Outcomes from External Audit
	c) The consideration of all related projects including the reliance on other assurance providers?	Y			
	d) The risk or control framework or other criteria used as a basis for the overall opinion?	Y			
	Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?	N/A	N/A	N/A	
Page 96	Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?	Y			
	Does the annual report incorporate the following:				Issues raised on AGS Outcomes from External Audit
	a) The annual internal audit opinion?	Y			
	LGAN b) A summary of the work that supports the opinion?	Y			
	LGAN c) A disclosure of any qualifications to the opinion?	Y			
	LGAN d) The reasons for any qualifications to the opinion?	Y			
	LGAN e) A disclosure of any impairments or restriction in scope?	Y			
LGAN f) A comparison or work actually carried out with the work planned?	Y				
	g) A statement on conformance with the PSIAS?		P		This will be included for the 14/15 An-

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	h) The results of the QAIP?		P		nual report This will be included for the 14/15 Annual report
LGAN	i) Progress against any improvement plans resulting from the QAIP?			N	This will be included for the 14/15 Annual report
LGAN	j) A summary of the performance of the internal audit activity against its performance measures and targets?	Y			
	k) Any other issues that the CAE judges is relevant to the preparation of the governance statement?	Y			
	2500 Monitoring Progress				
	Has the CAE established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action?	Y			
	Where issues have during the follow-up process, has the CAE considered revising the internal audit opinion?			N	Our process is not to revise an audit opinion during a follow-up review and to only change this after the next full audit.
	Do the results of monitoring management actions inform the risk-based planning of future audit work?	Y			
	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	N/A	N/A	N/A	

Ref	Conformance with the Standard	Y	P	N	Evidence
4.7	2600 Communicating the Acceptance of Risks				
	If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	Y			High priority recs not agreed are reported to the Audit Committee
	If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?	Y			High priority recs not agreed are reported to the Audit Committee

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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Audit Committee Report

Report of: Director of Legal and Governance

Date: 14 November 2013

Subject: Work Programme

Author of Report: Dave Ross

Summary:

The report provides details of a proposed work programme for the Committee for 2013/14 and Members are requested to identify any further issues for inclusion.

Recommendations:

That the Work Programme is approved.

Background Papers:

Category of Report: OPEN

Statutory and Council Policy Checklist

Financial Implications
NO Cleared by:
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
NONE
Relevant Cabinet Portfolio Leader
NOT APPLICABLE
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

WORK PROGRAMME

1. Purpose of Report

1.1 To consider an outline work programme for the Committee for 2013/14.

2. Work Programme

2.1 It is intended that there will be at least five meetings of the Committee during the year with additional meetings held if required. The work programme is based around the attached terms of reference and includes some items which are dealt with at certain times of the year to meet statutory deadlines, such as the Annual Governance Report and Statement of Accounts, and other items requested by the Committee.

2.2 An outline programme for 2013/14 is set out below. Members are asked to identify any further items for inclusion.

Date	Item	Author
12 December 2013	(Additional meeting if required)	
9 January 2014	Annual Grants Report 2012/13	John Prentice (Director, KPMG)
9 January 2014	Progress on Internal Audit Reports with a High Opinion	Laura Pattman (Assistant Director of Finance)
9 January 2014	Review of the operation of the new Internal Audit structure	Laura Pattman (Assistant Director of Finance)
9 January 2014	Financial/Commercial Monitoring of External Relationships - Progress Report	Anna Peysner (Assistant Director of Finance)/ Andrew Kidder (Finance Manager)
13 February 2014	(Additional meeting if required)	
13 March 2014	(Additional meeting if required)	
10 April 2014	Audit Opinion Plan	John Prentice (Director, KPMG)

10 April 2014	Annual Audit Fee Letter 2014/15	John Prentice (Director, KPMG)
10 April 2014	Internal Audit Plan 2014/15	Laura Pattman (Assistant Director of Finance)
10 April 2014	Audit Commission Report on Protecting the Public Purse/Update on Counter fraud initiatives	Laura Pattman (Assistant Director of Finance)
10 April 2014	International Auditing Standards – Compliance with Internal Control/counter Fraud	Laura Pattman (Assistant Director of Finance)
10 April 2014	Progress on Internal Audit Reports with a High Opinion	Laura Pattman (Assistant Director of Finance)
10 April 2014	Strategic Risk Management	Richard Garrad (Corporate Risk Manager)

3. **Training**

- 3.1 Arrangements are being made for a training session on risk management. Consideration is also being given to a session on emerging issues on fraud.

4. **Recommendation**

- 4.1 That the Committee's Work Programme for 2013/14 is approved.

Director of Legal and Governance

Audit Committee Terms of Reference (Revised February 2012)

- (1) To approve the Council's Statement of Accounts (which includes the Annual Governance Statement) in accordance with the Accounts and Audit Regulations 2003 as amended.
- (2) To consider and accept the Annual Letter from the Auditor or the Audit Commission in accordance with the Accounts and Audit Regulations 2003 as amended and to monitor the Council's response to any issues of concern identified.

Audit Activity

- (3) To consider the Chief Internal Auditor's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- (4) To consider summaries of specific internal audit reports as requested.
- (5) To consider reports dealing with the management and performance of the internal audit service.
- (6) To consider any report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- (7) To consider specific reports as agreed with the external auditor.
- (8) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (9) To liaise with the Audit Commission over the appointment of the Council's external auditor.

Regulatory Framework and Risk Management

- (10) To maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour (except in relation to those matters which are within the Terms of Reference of the Standards Committee e.g. code of conduct and behaviour of Members).

- (11) To monitor the effective development and operation of risk management and corporate governance in the Council.
- (12) To monitor Council policies on “Raising Concerns at Work” and the anti-fraud and anti-corruption strategy and the Council’s complaints process.
- (13) To oversee the production of the Council’s Annual Governance Statement and monitor progress on any issues.
- (14) To consider the Council’s arrangements for corporate governance and any necessary actions to ensure compliance with best practice.
- (15) To consider the Council’s compliance with its own and other published standards and controls.

Accounts

- (16) To consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.