

Audit Committee

Thursday 9 January 2014 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

Rick Plews and Liz Stanley.

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
9 JANUARY 2014**

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 on the Financial/Commercial Monitoring of External Partnerships 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 14 November 2014.
- 6. Review on the Operation of the new Internal Audit Structure** (Pages 11 - 16)
Report of the Assistant Director of Finance.
- 7. Certification of Grant Claims and Returns 2012/13** (Pages 17 - 32)
Report of the Director, KPMG.
- 8. Financial/Commercial Monitoring of External Relationships - Progress Report** (Pages 33 - 38)
Report of the Executive Director, Resources.
- 9. Work Programme** (Pages 39 - 44)
Report of the Director of Legal and Governance.
- 10. Dates of Future Meetings**
To note that meetings of the Committee will be held at 6.00 p.m. on:-
 - 13 February 2014 (additional meeting if required)
 - 13 March 2014 (additional meeting if required)
 - 10 April 2014

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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 14 November 2013

PRESENT: Councillors Ray Satur (Chair), Joe Otten (Deputy Chair), Anders Hanson, Steve Jones and Martin Lawton.

Co-opted Independent Members
Rick Plews.

Officers in attendance
Eugene Walker (Director of Finance), Allan Rainford (Deputy Director of Finance, Strategic Finance), John Mothersole (Chief Executive) Kayleigh Inman (Senior Finance Manager, Internal Audit), Stephen Bower (Finance Manager, Internal Audit), David Phillips (Senior Manager, KPMG), Edward Highfield (Director of Creative Sheffield), Bev Coukham (Director of Business Strategy), Ellie Fraser (Customer Accounts Team Manager), Richard Garrad (Corporate Risk Manager) and Dave Ross (Principal Committee Secretary).

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1. APOLOGIES FOR ABSENCE

1.1 Apologies for absence were received from Councillor Sioned-Mair Richards and Mrs Beryl Seaman.

2. MRS BERYL SEAMAN

2.1 Councillor Ray Satur (Chair of the Committee) reported that this would have been Beryl Seaman's last meeting as she was standing down as a co-opted member of the Committee at the end of the year but was unfortunately unable to attend. He thanked her for her hard work and the dedication she had shown to the Committee.

2.2 **Resolved:** That the Committee places on record its thanks and appreciation to Beryl Seaman for her contribution to the work of the Committee and offers her its best wishes for the future.

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 25 September 2013 were approved as a correct.

Matters Arising

4.2. Digital Region Limited

4.2.1 The Director of Finance reported on behalf of the Chief Executive and indicated that the terms of reference for the review of the Digital Region project had been redrafted and were due to be agreed shortly by the Chief Executives of the four South Yorkshire local authorities. KPMG would be undertaking the review. The first stage would examine the headline issues with the second stage focussing on specific issues. The timescales for the review had not been confirmed.

4.2.2 In response to a question from a member of the Committee, the Director of Finance confirmed that the final review report would be submitted to this Committee.

4.2.3 **Resolved:** That the information now reported is noted.

4.3 South Yorkshire Trading Standards

4.3.1 The Director of Finance reported on behalf of the Chief Executive and indicated that negotiations were still continuing with the other South Yorkshire local authorities regarding South Yorkshire Trading Standards and there were revised terms of settlement. The Chief Executive would provide a written update to members of the Committee in two weeks' time.

4.3.2 **Resolved:** That the information now reported is noted.

5. SOUTH YORKSHIRE DIGITAL REGION: PROGRESS ON MANAGEMENT RESPONSE

5.1 The Director of Finance and the Director of Creative Sheffield submitted a joint report providing 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 (DRL) to reduce the financial impact on the Council".

5.2 Arising from the decision to close DRL, the joint report outlined a number of work streams for DRL and the City Council and also set out the financial position.

5.3 Officers responded to questions from members of the Committee relating to the Council as a customer of DRL and European funding clawback.

5.4 **Resolved:** That the Committee notes the report and the steps being taken to manage the closure of Digital Region Limited to reduce the financial impact on the Council.

6. ANNUAL AUDIT LETTER 2012/13

6.1 The Senior Manager, KPMG introduced the Annual Audit Letter 2012/13 that summarised the findings from the audit of the Council's financial statements and

value for money conclusion for 2012/13. He referred to the unqualified opinion on the financial statements, that the certificates to close the 2011/12 and 2012/13 audit cannot be issued before the work on the two objections was completed and the 40% reduction in audit fees.

6.2 He also reported that John Prentice (Director, KPMG) had been the Council's External Auditor for 5 years and would become the External Auditor for Leeds City Council from the end of the year. Steve Clark would be the Council's new External Auditor.

6.3 Councillor Ray Satur (Chair of the Committee) thanked John Prentice for the assistance and exemplary support he had given the Committee.

6.4 The Senior Manager responded to question from members of the Committee relating to the two objections to the 2011/12 financial statements.

6.5 **Resolved:** That the Committee:-

(a) notes the Annual Audit Letter 2012/13; and

(b) places on record its thanks to John Prentice (Director, KPMG) for his contribution to the work of the Committee as the Council's External Auditor and offers him its best wishes.

7. PROGRESS ON INTERNAL AUDIT REPORTS WITH A HIGH OPINION

7.1 The Senior Finance Manager (Internal Audit) introduced a report of the Assistant Director of Finance giving details of progress made against the recommendations in Internal Audit reports that had been given a high opinion and identifying those audits that should be removed from future reports.

7.2 The Director of Business Strategy (Communities) and the Customer Accounts Team Manager attended the meeting and provided further information with regard to the implementation of the recommendations for the audit of Self Directed Support (Direct Payments). This included the achievements since the audit was undertaken and a detailed action plan. 21 of the 22 recommendations had been completed but needed to be verified by Internal Audit.

7.3 Officers responded to questions from members of the Committee relating to the audit of Self Directed Support (Direct Payments).

7.4 **Resolved:** That the Committee:-

(a) notes the contents of the report now submitted and the information now reported;

(b) agrees that the audits relating to Marketing Sheffield, Cash Handling Appointeeships in Residential Homes and the Register Office are removed from future progress reports; and

- (c) requests that the Internal Audit follow-up review of Self Directed Support (Direct Payments) is undertaken as soon as possible.

8. PROGRESS ON COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDITING STANDARDS

- 8.1 Further to the report submitted to the meeting of the Committee on 17 April 2013 on the Public Sector Internal Auditing Standards (PSIAS) which came into force on 1 April 2013, the Senior Manager (Internal Audit) introduced a report of the Assistant Director of Finance summarising the progress made to ensure compliance with the PSIAS and highlighting the additional work still required. Attached to the report was the completed PSIAS checklist. The aim of the Standards was to promote further improvements in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 8.2 The Senior Manager reported that reference to External Audit in the Standard relating to 'conducting a review of the effectiveness of its internal audit at least annually' in Appendix A (page 66) would be removed and captured as part of the Peer Review process. She also reported that the Declaration of Endorsement would be prepared by the end of the year.
- 8.3 Officers responded to questions from members of the Committee relating to the external assessment, Continual Professional Development and ethics and information technology governance.
- 8.4 **Resolved:** That the Committee:-
- (a) notes the contents of the report now submitted and the progress made in implementing the Public Sector Internal Auditing Standards; and
- (b) endorses the work undertaken to ensure compliance with the Standards.

9. EXCLUSION OF PUBLIC AND PRESS

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

10. STRATEGIC RISK MANAGEMENT

- 10.1 The Corporate Risk Manager gave a presentation on the:-
- Council's current Risk Management arrangements and the measures being implemented to further strengthen and improve those arrangements,
 - Risk Management trend analysis since the information reported to the

Committee on 17 April 2013 and

- current and emerging risks to delivery of the Council's strategic objectives and the controls in place to manage those risks.

10.2 **Resolved:** That the Committee:-

- (a) notes the current assessment of the Council's Risk Management arrangements and endorses the measures being undertaken to strengthen those arrangements;
- (b) notes the improving trend in the management of risks;
- (c) notes the current and emerging risks and endorses the actions being taken to mitigate those risks; and
- (d) requests the Corporate Risk Manager to:
 - (i) circulate the latest Corporate Risk Register report to members of the Committee and
 - (ii) include the Corporate Risk Register report with the future reports to the Committee on Strategic Risk Management.

11. **WORK PROGRAMME**

11.1 The Director of Legal and Governance submitted a report setting out a proposed work programme for the Committee for 2013/14.

11.2 **Resolved:** That the Committee approves the work programme.

12. **DATES OF FUTURE MEETINGS**

12.1 It was noted that:-

- (a) if there were no urgent items of business, the meeting of the Committee arranged for 12 December 2013 would be cancelled; and
- (b) meetings of the Committee would be held on the following dates at 6.00 p.m.:-
 - 9 January 2014
 - 13 February 2014 (additional meeting if required)
 - 13 March 2014 (additional meeting if required)
 - 10 April 2014

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Audit Committee Report

REPORT OF	Assistant Director Finance – Business Partnering and Internal Audit	DATE
		9/01/2014

SUBJECT	Review of the Operation of the new Internal Audit Structure
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SUMMARY This report summarises how the new management arrangements for the Internal Audit section are operating in practice. It provides an update on those arrangements and how they fulfil the requirements of the Public Sector Internal Audit Standards (PSIAS).

RECOMMENDATIONS

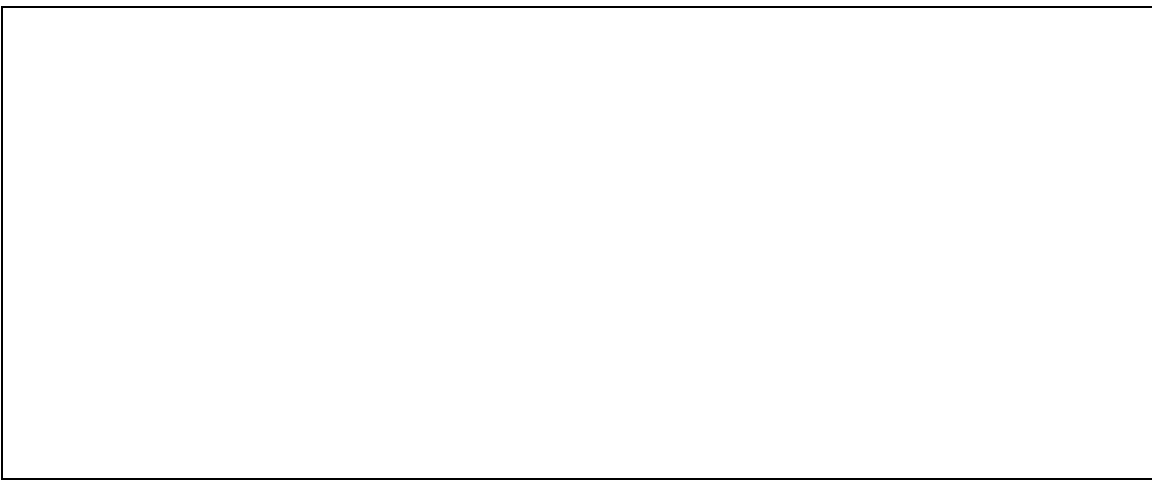
That members note that progress has been made in implementing the new management arrangements effectively.

That members endorse the management arrangements of the Internal Audit section.

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

9th January 2014

Assistant Director of Finance Report – Review of the Operation of the new Internal Audit Structure

PURPOSE OF THE REPORT

1. This report summarises the evaluation of the implementation and operation of the new management arrangements of the Internal Audit section.

BACKGROUND

2. The new management arrangements for the Internal Audit section were implemented on 1 April 2013, and aimed to provide an effective management structure within the available budget.
3. The new arrangements are (in brief) an Assistant Director with shared responsibility for Internal Audit and Business Partnering, supported by a Senior Finance Manager. Together with reductions at the Finance Manager level within the Internal Audit section, this new structure released budget savings.
4. The PSIAS came into force on the 1st April 2014 and replaced the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006*. The standard sets out a number of requirements for management structures and Sheffield City Councils' (SCC) Internal Audit service currently complies with the requirements of the CIPFA Code of Practice.

Requirements of the PSIAS

5. The PSIAS set out the requirement for a Chief Audit Executive (CAE). To ensure that this role is independent of other roles and responsibilities within SCC this role is assigned to the Senior Finance Manager.
6. The requirements of the PSIAS largely relate to ensuring the independence of the Internal Audit function. Independence is defined within the standard as 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 it is stated that the CAE must have direct and unrestricted access to senior management and the board.
7. The CAE must report functionally to the board, and establish effective communication with the Chief Executive and Chair of the Audit Committee.

Current Arrangements in Internal Audit

8. 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.
9. There are no barriers to reporting audit issues corporately when the need arises, and this is outlined in the Audit Charter. A Declaration of Endorsement is being prepared to formally demonstrate the approval of the reporting access to the Executive Director, Resources, the Chief Executive and the Chair of the Audit Committee. This will be submitted to the Audit Committee with the Annual Report for 2014.

Evaluation of Current Management Arrangements

10. The current management arrangements are working efficiently and effectively. To date 45% of the 2013/14 Audit Plan has been delivered, against a target for this time of year of 54%. In addition to this a significant number of special investigations have been undertaken jointly by the Assistant Director and the Senior Finance Manager, and the Finance Manager since April 2013.
11. Whilst the service is actively trying to balance the delivery of the plan with the need to undertake ad-hoc special investigations, we have acknowledged that this is difficult with the level of resourcing available.
12. In recognition of this additional workload, arrangements are currently being considered to temporarily increase resources to support the continued delivery of the Audit Plan. This demonstrates the continued commitment of senior management to ensuring the effectiveness of the Internal Audit function.
13. The Senior Finance Manager has direct access to the Chief Executive and the Executive Director of Resources if required and this has been called upon whilst undertaking the special investigations/management reviews. This demonstrates compliance with the PSIAS.

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 management arrangements of the Internal Audit Section.

Laura Pattman
Assistant Director of Finance

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AUDIT COMMITTEE REPORT - 9 JANUARY 2014

CERTIFICATION OF GRANT CLAIMS AND RETURNS 2012/13

Report of the Director, KPMG.

Recommendation

That the report is noted.

Category of Report - Open

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cutting through complexity™

Certification of grant claims and returns 2012/13

Page 19

Sheffield City Council

December 2013





Contents

The contacts at KPMG in connection with this report are:

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Assistant Manager

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	Page
■ Headlines	2
■ Summary of certification work outcomes	3
■ Fees	5
■ Recommendations	6
■ Prior year recommendations	8

This report is addressed to the Authority and has been prepared for the sole use of the Authority. 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.

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, who is the engagement leader to the Authority who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail 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.



Certification of grant claims and returns 2012/13 Headlines

Introduction and background	<p>This report summarises the results of work on the certification of the Council's 2012/13 claims and returns.</p> <ul style="list-style-type: none"> ■ For 2012/13 we certified: <ul style="list-style-type: none"> – 4 grants and returns with a total value of £573.7m. 	-
Certification results	<p>We issued unqualified certificates for 2 claims and returns, but qualifications were necessary for the other two .</p> <ul style="list-style-type: none"> ■ We issued a qualification letter on the Council's housing benefits claim to report, as required, on a range of issues described in more detail on page 4. In summary these issues relate to i) overpaid and underpaid benefit resulting from errors in the assessment of tax credits; ii) misclassified expenditure (overpayments, rent allowance and backdated expenditure); and iii) an unexplained, but apparently limited, system discrepancy which raised questions about the integrity of information held on the benefits system. ■ We issued a qualification letter on the Council's Teachers' Pensions Scheme return to report that the Council did not put in place any arrangements to gain assurance that third party providers had properly introduced tiered contributions from 1 April 2012; and ■ This compares to one claim (housing benefits) being qualified in 2011/12. 	Pages 3 – 4
Audit adjustments Page 21	<p>Adjustments were necessary to 1 of the Council's claims and returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ Off-setting upwards and downwards adjustments totalling £52,000 were made to the detailed analysis of pension contributions by tier on the Teachers' Pensions Return. However these adjustments did not affect the overall contributions recorded on the claim; and ■ This compares to adjustments of £71,000 made to the housing benefits claim, and £9,000 to the pooling of capital receipts claim in 2011/12. 	Pages 3 – 4
The Council's arrangements	<p>The Council has adequate arrangements for preparing its claims and returns and supporting our certification work, but some further improvements can be made.</p> <ul style="list-style-type: none"> ■ Housing Benefits Subsidy claim. Officers have made significant efforts to improve the support provided to us. However arrangements could be further improved by providing i) timely responses to queries from the auditor; and ii) a wider range of working papers and supporting evidence when certification work commences. The recommendations on pages 9 and 10 are aimed at securing improvements in these arrangements; ■ Teachers' Pensions claim. For schools which have their own payroll provider, the Council should carry out spot checks on the accuracy of the employee contributions calculated following the introduction of the new tiered system in 2012/13; and ■ We raised three recommendations in relation to Housing Benefits Subsidy claim last year. All three recommendations have been implemented. 	Page 4
Fees	<p>The Audit Commission changed its fee regime for certifying claims and returns in 2012/13.</p> <ul style="list-style-type: none"> • The Commission set an indicative fee for the Council of £38,300. Our actual fee for the certification of grants and returns is £39,870 subject to Audit Commission approval of a fee variation. The difference is due to the need to complete additional testing on the teachers' pensions scheme compared to 2010/11 (the baseline year for setting fees), and to draft and agree the qualification letter on that claim. ■ These fees compare to a total charged for 2011/12 of £89,200 including £8,900 for claims discontinued after 2011/12. 	Page 5

Certification of grant claims and returns 2012/13

Summary of certification work outcomes

Overall, we certified 4 grants and returns:

- 2 were unqualified with no amendment; and
- 2 required a qualification to our audit certificate, with in addition one of these claims requiring minor adjustments to the figures.

Detailed comments are provided overleaf.

Page 22

Detailed below is a summary of the key outcomes from our certification work on the Council's 2012/13 claims and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing & Council Tax Benefit	1	●			
Pooling of Housing Capital Receipts					●
National Non Domestic Rates return					●
Teachers' Pensions return	2	●		●	
		2	0	1	2

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

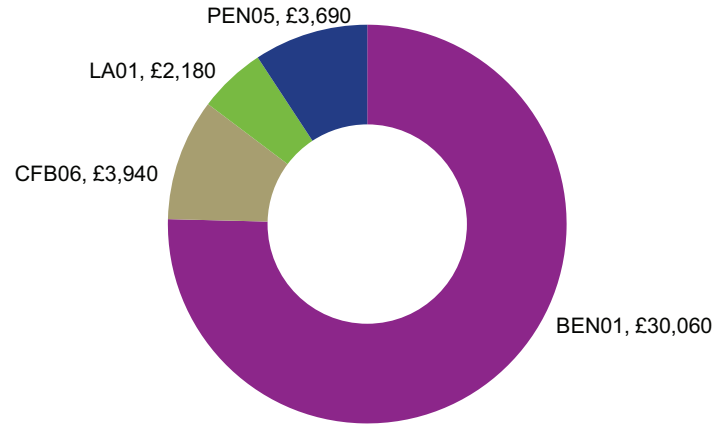
Page 23

Ref	Summary observations	Amendment
1	<p>Housing and council tax benefits</p> <ul style="list-style-type: none"> The claim was qualified in respect of several issues which have also arisen in previous years: overpaid and underpaid benefit due to errors in the assessment of tax credits; misclassified overpayments; and misclassified backdated expenditure. The first two issues can impact on the level of subsidy claimable and are therefore issues that the Council should seek to address. Although misclassified backdated expenditure no longer has an impact on the amount of subsidy claimed, it is an issue which requires attention to avoid future qualification by the auditor. There were two new issues identified in 2012/13 which also resulted in qualification: misclassified rent allowances and an unexplained system discrepancy apparently affecting only cases calculated on a daily rather than weekly basis. The misclassification of rent allowances in this instance does not impact on subsidy claimable, but it is an issue which should be addressed to avoid future qualification by the auditor. Unexplained system discrepancies reduce assurance from the system and require additional work. There were no amendments to the claim. 	£0
2	<p>Teachers' pensions return</p> <ul style="list-style-type: none"> The return was qualified as the Council could not provide evidence to demonstrate that the new system of tiered contribution rates was properly implemented by schools that use their own payroll providers. However, our sample testing did not detect any errors in practice. In addition there were errors totalling £52,000 each way in the table that analyses contributions by tier. These errors cancelled out so there was no impact on the overall total of the return. The Department expects all Councils to obtain appropriate evidence from third party providers, so that each body has sufficient assurance that its overall claim is correct. 	<p>£0 overall</p> <p>+£52,000 -£52,000</p>

Our overall fee for the certification of claims and returns is estimated at £1,570 (4%) above the original estimate reflecting additional work necessary on the Teachers' Pensions return. This additional fee is subject to confirmation by the Audit Commission.

Page 24

Breakdown of certification fees 2012/13



Breakdown of fee by claim/return	2012/13 (£)	2011/12 (£)
BEN01 – Housing and Council Tax Benefits	30,060	62,200
CFB06 – Pooling of Housing Capital Receipts	3,940	7,100
LA01 – National Non Domestic Rates return	2,180	6,200
PEN05 – Teachers' Pensions return	3,690	4,800
Discontinued claims	0	8,900
Total fee	39,870	89,200

The Audit Commission changed its fee regime for certifying claim and returns in 2012/13 which provided an expected overall fee for the year (which is initially derived from the fees charged in 2010/11 less 40% savings from national tendering in 2012). Previously fees were charged on the basis of the actual time taken. It set an indicative fee for the Council of £38,300. Based on the actual work we carried out the fee we expect to charge is £1,570 (4%) higher than the indicative fee. The reason for the fee exceeding the indicative fee was that additional testing was required on the teachers' pension return due to the move to tiered contributions, and the claim had to be qualified. The equivalent fee charged in 2011/12 was £89,200.

The fee variation of £1,570 is still subject to confirmation by the Audit Commission, and consequently our fee information is presented as estimated rather than final.

We have given each recommendation a risk rating and discussed and agreed what action management will need to take. We will follow up these recommendations during next year's audit.

Priority rating for recommendations

<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Housing benefits					
<p>System discrepancy There was a 16p underpayment of benefit on one Non HRA case due to an unexplained system discrepancy within the Academy benefits system. Capita Software Services asserted that this problem is limited to the small number of cases calculated on a daily rather than weekly basis and provided evidence that this was the only daily case with a system discrepancy.</p>	<p>Incorrect calculation of 1 day benefits cases. Unexplained system discrepancies reduce assurance from the system and require additional work. Qualification issue.</p>	<p>1 The Authority/Capita should run a system enquiry to identify any discrepancies on one day Non HRA cases between benefit recorded on the Academy transactions screen and benefit on the Academy assessment line calculator.</p>	<p>2</p>	<p>Capita: We will run a system enquiry identifying all 1 Day Benefits cases in the Non HRA which will be checked before Subsidy Claim is submitted.</p>	<p>Dave Mendham :Capita After 31st March 2014 year end and before Subsidy Claim is submitted by 30th April 2014.</p>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Theme heading					
<p>Tax credits</p> <p>Errors in child tax credit and working tax credit leading to both overpayments and underpayments of benefit. The introduction of Automation to ATLAS MANAGER in July 2013 should help to reduce the number of errors as the transfer of tax credit information is now electronic and no longer requires manual input.</p>	<p>Incorrect calculation of benefits payable.</p> <p>Qualification issue.</p>	<p>2</p> <p>The Authority/Capita should review the impact of the introduction of ATLAS MANAGER on the level of child tax credit and working tax credit errors. Early testing of a sufficient sample of cases may help to demonstrate that the issue has been addressed.</p>	<p>2</p>	<p>Capita: Cases are now pushed through automation by a nationwide accepted process from July 2013. System testing was carried out by ATP and a training folder was put together explaining the in depth process in line with DWP guidance and HBR32. Copy of training folder can be provided if required.</p>	<p>Dave Mendham :Capita As required</p>
<p>Misclassified overpayments</p> <p>Overpayments incorrectly classified as eligible error (40% subsidy) rather than LA error (100% subsidy assuming below threshold).</p>	<p>Subsidy potentially under claimed.</p> <p>Qualification issue.</p>	<p>3</p> <p>The Authority/Capita should strengthen quality review procedures to ensure that the number of overpayment misclassifications is minimised. Follow up testing should be done of a sample of overpayments in the draft subsidy claim 2013/14.</p>	<p>2</p>	<p>Capita: We will put out a further guidance e-mail to remind assessors of the importance of correct classification.</p> <p>SCC: Overpayment checks are done as part of the 10% contract monitoring arrangements and this is continuing and was done during 2013/14.</p>	<p>David Mendham: Capita By 31st Jan 2014</p> <p>Chris Allen: Sheffield City Council - ongoing</p>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date	
Theme heading						
Rent Allowance classification Errors in classification of rent allowance cases not requiring referral to rent officer (Housing Association/RSL) (cell 102) – some had been incorrectly recorded in cell 103 as Local Housing Allowance cases.	Qualification issue but no impact on amount of subsidy.	4	The Authority/Capita should review cases with subsidy entries recorded in both cell 102 and cell 103 to check correct classification. If 100% checking is feasible then this would enable the agreement of an amendment to the subsidy claim and avoid future qualification.	2	Capita: Will attempt to do 100% check of cases, if feasible, with entries recorded in both cells 102 and 103.	Dave Mendham: Capita before Subsidy Claim is submitted by 30 th April 2014
Backdated expenditure Benefit entitlement incorrectly classified as backdated expenditure. However expenditure recorded in backdate cells (which repeats benefit entitlement already recorded in the subsidy headline cells) is effectively for management information purposes only.	Qualification issue but no impact on subsidy.	5	The Authority /Capita should identify why backdate misclassifications have occurred and take appropriate action to ensure that similar errors are avoided in future.	3	Capita: We will put out a further guidance email to remind assessors of the importance of correct classification. Sample checking will be done to ensure its success.	Dave Mendham / Jeff Green: Capita By 31st March 2014

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Theme heading					
<p>Response to auditor queries</p> <p>Although all queries were answered, due to the complexity of some of them, in some cases responses took over 3 months.</p> <p>Page 28</p>	<p>Potential impact on timescale and fee if responses are unduly delayed.</p>	<p>6 Authority/Capita to improve arrangements for responding to auditor queries promptly and providing complete and robust responses to issues identified by the auditor.</p>	<p>2</p>	<p>With regards to the complexity of these cases. One case had to be referred to CSS the software supplier after thorough investigation in Sheffield failed to identify the reason for the discrepancy of this case. After checking all the cases of this type in the system. no other instance of this error was found, so at this point the case was referred to CSS the software supplier who also had to do thorough testing of the system as no other error of this type had been identified by any other Authority in the 19 years of the Academy system operating.</p> <p>The Authority's approach was to return the bulk of cases in the sample rather than withhold the sample return for one case.</p>	<p>Dave Mendham: Capita to keep a log of any non-returns in the main sample with a note to the auditor with target return dates to allow for any complex additional work that may be required within Capita or CSS the software supplier.</p> <p>Capita will update the auditor on a weekly basis if the target date is not achieved giving reasons and revised timescales.</p>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date	
Housing and Council Tax Benefits						
Claim compilation We noted that the subsidy claim certification process could be made more efficient by ensuring that standard working papers are provided at an early stage after claim compilation. In particular: i) System software evidence – screen prints evidencing that the correct version of the software is in place and that the appropriate validation checks have been performed. ii) A file note could have been provided explaining significant differences between the 2011/12 and 2012/13 subsidy claims. iii) A file note explaining how the Authority/Capita has addressed issues previously raised by the auditor.	Inefficient claim certification process. Potential impact on auditor fee if similar delays in future.	7	To agree list of working paper requirements before compilation of the 2013/14 subsidy claim.	2	i) agreed ii) will provide in future if audit can clarify what they mean by significant differences. Notes are already provided of cell movements on the excel claim spreadsheet provided iii) supporting documentation will be provided on additional checks .	Dave Mendham: Capita & Christine Allen: SCC Will review the current subsidy audit pack and include a documented list of information required and supporting documentation to be provided. List to be agreed with the Auditor by 31st January 2014.
Teachers' Pensions						
Tiered contributions The Council should obtain appropriate assurances from third party providers that the system of tiered contributions has been implemented successfully.	Without these assurances the Council does not have reasonable assurance that the new system has been implemented properly, and that the figures on the claim are correct.	8	For schools which have their own payroll provider, Sheffield CYP should carry out spot checks on the accuracy of the employee contributions calculated following the introduction of the new tiered system in 2012/13.	2	A process will be put in place to sample-check schools using external payroll providers.	Liz Orme: SCC 31 March 2014



Certification of grant claims and returns 2012/13

Prior year recommendations

We made 3 recommendations in our 2011/12 Certification of Grants and Returns report, all on the Housing Benefit Subsidy claim. We are pleased to report that all three recommendations were implemented successfully in 2012/13.



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Audit Committee Report

Report of: Director of Legal and Governance

Date: 9 January 2014

Subject: Work Programme

Author of Report: Dave Ross

Summary:

The report provides details of a proposed work programme for the Committee to April 2014. Members are requested to identify any further items 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 to April 2014.

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 to April 2014 is set out below. Members are asked to identify any further items for inclusion.

Date	Item	Author
13 February 2014	Progress on Internal Audit Reports with a High Opinion	Laura Pattman (Assistant Director of Finance)
13 March 2014	(Additional meeting if required)	
10 April 2014	Audit Opinion Plan	Director, KPMG
10 April 2014	Annual Audit Fee Letter 2014/15	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 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)
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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 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.