



Agenda Item 11

Audit Committee Report

REPORT TO AUDIT COMMITTEE

DATE

28th April 2015

REPORT OF Interim Director of Finance

ITEM

SUBJECT Compliance with International Auditing Standards

SUMMARY

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

RECOMMENDATIONS

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

**FINANCIAL IMPLICATIONS
CLEARED BY**

**No
K Inman**

**PARAGRAPHS
54**

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

**TEL NO.
0114 27 34435**

AREA(S) AFFECTED

**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

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

Sheffield City Council

Report to the Audit Committee April 2015

Compliance with International Auditing Standards (IASs)

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

Introduction

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

Key Requirements of the International Auditing Standards

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

- 7) *Additionally those charged with governance must approve the financial statements, so an understanding as to how the Audit Committee obtains the necessary assurances to discharge this responsibility is required (for example assurances over the qualifications, experience and suitable numbers of key accountancy staff preparing the accounts, robust general ledger and key financial systems, adequate closedown planning, suitable quality assurance processes).*

Areas Covered in the Report

- 8) The following paragraphs summarise how the members of the Audit Committee can gain assurance that key elements of the council's internal control systems are being reviewed and reported. This is a consolidation report of items that have been reported to the Audit Committee throughout the year, and covers the : -
- Annual Accounts
 - System of Internal Control
 - Governance Arrangements
 - Counter Fraud Arrangements
 - Risk Management
- 9) The report will also highlight where it has been agreed to supply additional information over the coming year to the Audit Committee on specific issues. Officers of the council and KPMG also attend the committee to present reports and to answer questions raised.
- 10) The Audit Committee comprises six elected members drawn from the parties on a politically balanced basis. The committee is chaired by Councillor Ray Satur OBE. The constitution of the group is strengthened by the inclusion of two independent non-voting Members; Rick Plews and Liz Stanley. These two individuals bring considerable skills and external experience to the committee. It is noted that the Audit Committee have taken a number of steps to help them undertake their roles and responsibilities. This has included taking independent advice and training.

Annual Accounts

- 11) Those charged with governance (the Audit Committee) are required to approve the financial statements. In order to do this effectively, the Audit Committee obtains the necessary assurances to discharge this responsibility (for example assurances over the qualifications, experience and suitable numbers of key accountancy staff preparing the accounts,

robust general ledger and key financial systems, adequate closedown planning, suitable QA processes).

- 12) The Interim Director of Finance reported upon the arrangements for the production of the 2013/14 annual accounts when he presented them at the September 2014 meeting for sign off. External Audit expressed satisfaction with these arrangements. The process for compiling the annual accounts is a rolling process, with lessons learnt in one year being used to develop the process for future years.
- 13) The Audit Committee reviewed the accounts and questioned the officers on items contained therein, when the accounts were presented. Where additional information was requested, this was provided to the committee promptly in a suitable form for discussion.
- 14) The external auditors audit the accounts and presented a report on their findings to the September 2014 Audit Committee prior to the accounts being finalised (this is the ISA 260 report). The report outlined the work undertaken on the 2013/14 accounts to support KPMG's conclusions. This allowed Members to have an independent opinion on the accounts. Issues raised by the external auditors are followed up by the council officers and progress is reported to the Audit Committee at appropriate intervals. The 2013/14 accounts were closed by the external auditor within the required timescales.
- 15) The accounts for 2013/14 were given an unqualified opinion by the external auditor. The controls over the majority of the council's key financial systems were sound but there were some weaknesses in respect of individual financial systems relating to pension data flows and the credit clearing account and a diminution of controls following a review by the council and change in the practice relating to journals.
- 16) Issues raised by the external auditor were discussed and addressed by officers. These were specifically in relation to the authorisation of internal journals, the credit clearing account and adult social care. They also responded to further questions relating to South Yorkshire Trading Standards Unit. Follow-up action on the points raised was also reported to the committee in January 2015.
- 17) The KPMG Director outlined the specific value for money risks in relation to the social care overspend resulting in the qualified opinion on the value for money conclusion.
- 18) The KPMG Director indicated that due to the scale of savings and the decisions that underpin these, it was accepted that some savings may not be achieved during the year as planned but that it was about how that would be addressed by management. The Chief Executive acknowledged the increased challenge in achieving savings targets. However the council continued to deliver a balanced budget at the year end and the Chief Executive did not recall having to abandon any in year saving.

System of Internal Control

- 19) The Leader of Sheffield City Council signed off the Code of Corporate Governance. This Code of Corporate Governance sets out why good governance is important, explains how Sheffield City Council defines this, and explains how it will make sure that it takes place. This code supports the work of the two key internal committees – Audit Committee and Standards Committee. This report was conveyed through the council's web site to all members, staff and the general public.
- 20) There is an explicit requirement on officers and members to comply with the council's Code of Conduct and supporting rules and regulations. As part of the sign-off process for the annual governance statement, the directors are required to confirm in writing that they have in place adequate systems that ensure compliance with the relevant rules and legislation pertaining to their area of activity and this is used as a basis for the production of the statement. They also confirm that they are managing the risks pertaining to their service.
- 21) The 2013/14 Annual Governance Statement was presented to the Audit Committee in July 2014 following sign off by the Chief Executive and Council Leader. The statement only contained three items and management action for each of these was included within the statement.
- 22) Internal Audit planning arrangements are designed to cover the significant risks of the Council and the plans are endorsed by the Audit Committee. The plan for 2014/15 was presented to the committee in April, along with a report describing the process for compiling the plan. The new plan for 2015/16 is on the same agenda as this report.
- 23) Although copies of all audit reports are not shared with the committee, all reports containing a "high opinion" are submitted to committee members in full. Members can then forward any questions to the Senior Finance Manager, Internal Audit and responses are circulated to all. Regular update reports are provided to the committee to outline progress on the implementation of recommendations contained within the high opinion reports. In addition, issues would be raised from other reports, where Internal Audit are aware of serious breaches of control arrangements or where it is felt that management are not adequately dealing with matters of concern.
- 24) Members requested and received an update report on progress to address recommendations made in a 2013 report on Parking Services. This followed concerns raised regarding the slower than anticipated progress when the follow-up review was undertaken by Internal Audit in 2014.

25) The Chief Audit Executive (Senior Finance Manager) produces an independent annual report to the Audit Committee which highlights the work undertaken on the council's control environment and her opinion on the control arrangements.

Governance Arrangements

26) The council constantly reviews key governance documents, such as the Constitution and the Code of Corporate Governance to ensure that they are fit for purpose. These are then reported to the Audit Committee where appropriate.

27) This area is primarily the remit of the council's monitoring officer, who provides reports to the Audit Committee on these issues. She also regularly attends the committee (as appropriate) to answer any questions that members may wish to raise.

28) A report is presented to the committee at least twice per year that highlights the current issues with the council's key external relationships. This also highlights the mitigation strategies that are being taken to reduce any potential risks and allows members to question any issues raised. The latest of the reports was presented in January 2015. From 2015/16, it has been agreed to incorporate this report into the bi-annual update on risk management.

29) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement (AGS). The 2013/14 AGS highlighted three significant control weaknesses as well as the officer actions to address these. A similar process will be followed for 2014/15.

30) A number of issues have emerged throughout the year for which specific reports and explanations were requested. The committee has been provided with the required updates. These reports include a report and update on the Adult Social Care Management Review. A report was also presented of an independent review undertaken by KPMG of the South Yorkshire Digital Region Project. Reports were also given on the revised approach to capital delivery and reporting.

31) High opinion internal audit reports were also provided to the Audit Committee in full and the recommendations from these reports are included within a six monthly tracker report, which is produced by Internal Audit to monitor all recommendations until they are satisfactorily implemented.

32) The Senior Finance Manager (Internal Audit) presented her independent annual report to the September meeting of the Audit Committee, this supported the council's Annual Governance Statement. The report gave details of the audit coverage and outlined how overall the response to recommendations made by Internal Audit was positive, with the majority being accepted by management.

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

Counter Fraud Arrangements

- 35) Counter Fraud resources are allocated in the annual Internal Audit plan as presented to the Audit Committee.
- 36) The Chief Audit Executive's annual report contained a summary of counter fraud activity during 2013/14.
- 37) A "Protecting the Public Purse" report is on the agenda for today which summarises the national fraud activity indentified by the Audit Commission survey, the number of investigations within the authority in 2013/14 and highlights the actions taken to mitigate potential fraud in order to give assurance to the Audit Committee.
- 38) Fraud awareness training has been provided across the council. An e-learning package has been developed and made available across the council through the learning pool system. This is to be refreshed in 2015/16.
- 39) Individual incidents of a material scale will continue to be reported to the Audit Committee by Internal Audit.
- 40) The Audit Committee can call in officers to respond to issues raised by the Audit Commission and/or Internal Audit.
- 41) Internal Audit have conducted four pro-active counter fraud exercises in the current financial year, these have not highlighted any specific control weakness in counter fraud processes. Issues from these reviews have been discussed and actions agreed with the relevant managers in the areas concerned. The internal audit service will continue to conduct audits in this area in the coming year.
- 42) The National Fraud Initiative (NFI) exercise for 2014/15 is taking place currently. The council submitted the required data sets and recently received the data matches. These are being worked through across the

council to identify any irregularities. Internal Audit will continue to monitor this exercise. With the closing of the Audit Commission the government have stated that this process will continue and is being moved to the Cabinet Office. There will also be the ability to undertake additional data matches where required on an ad-hoc basis, should the need arise.

- 43) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed.
- 44) There have been considerable changes regarding fraud investigations undertaken across the council during the year. These are detailed in the protecting the public purse report on today's agenda. The key points are that the closure of the Audit Commission will mean the Protecting the Public Purse report is no longer produced. Discussions will, therefore need to take place with the Audit Committee on the form and timing of the reports on fraud that they will receive.
- 45) The Department for Works and Pensions (DWP) have formed a National Single Fraud Investigation Service (NFIS) and, as from the 1st of February 2015, all fraud investigations relating to housing benefits will be undertaken directly by DWP. The investigators employed by Capita who undertook this service for the council have now transferred to DWP. This has reduced the council's resources in this area as the number of accredited fraud investigators employed by the council has significantly reduced. The finance service has recently agreed to fund the training of two additional officers to strengthen its approach to fraud investigation. This training will take place over the next six months.
- 46) Although considerable progress has been made in implementing fraud awareness across the council and the policies that underpin this, much of the fraud investigation work is undertaken by management supported by Internal Audit and HR. A review of fraud investigation practices across the council will be undertaken as part of this year's audit plan.

Risk Management

- 47) The council's corporate risk manager attended the committee in April and November 2014 to present to members a report on the current risk management reporting arrangements within the Council and measures being implemented to further strengthen and improve those arrangements.
- 48) The report in November 2014 included the risk trend analysis from the previous report to the committee as well as the current and emerging risk to delivery of the council's strategic objectives and the controls in place to manage those risks.
- 49) The council's risk management framework has been made available on the intranet and training has been provided to all senior managers on its

operation. The council's risk managers review the risks identified and offer support and challenge to services on their identified risks.

- 50) Performance monitoring information is reported to the appropriate Scrutiny Boards, in line with their agreed plans of work. The council's corporate management team (CMT) also received a quarterly presentation on performance across the council and the cabinet members have direct access to the information relevant to their portfolio. Reporting of risk is now fully integrated with the reporting of service delivery and financial issues.
- 51) There is a requirement that all reports that are presented to the council's cabinet contain the key risks that relate to the subject area, these are scrutinised by the members. There is also a process in place to record and manage the risks in relation to programmes and projects as part of the progress reports submitted to members.

Recommendation

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