



Audit and Standards Committee Report

Report of: Dave Phillips, Head of Strategic Finance

Date: 12th April 2018

Subject: Compliance with International Auditing Standards

Author of Report: Kayleigh Inman, Senior Finance Manager (Internal Audit)

Summary:

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

Category of Report: Open

* Delete as appropriate

Statutory and Council Policy Checklist

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

Report to the Audit and Standards Committee April 2018

Compliance with International Auditing Standards (IASs)

Introduction

- 1) As part of International Auditing Standards (IAS) there is a requirement for those charged with governance (for Sheffield City Council this is the Audit and Standards Committee) to demonstrate formally 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 and Standards Committee to enable them to demonstrate that they have taken the appropriate overview of the entire governance framework of the Council, and have therefore exercised the necessary oversight to meet the requirements of the International Standards on Auditing.

Key Requirements of the International Auditing Standards

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

Areas Covered in the Report

- 7) The following summarises how the members of the Audit and Standards Committee can gain assurance that key elements of the Council's internal control systems are being reviewed and reported. This is a consolidation report of items that have been presented to the Audit and Standards Committee throughout 2017/18, and covers the : -
- Annual Accounts (2016/17)
 - System of Internal Control
 - Governance Arrangements (and compliance with laws and regulations)
 - Counter Fraud Arrangements
 - Risk Management
 - Standards Issues
- 8) The Audit and Standards Committee comprises 7 non-executive members of the Council with proportionality applied and a maximum of 3 non-voting co-optees. The Cabinet Member for Finance and Resources is invited to attend meetings as an observer.
- 9) There are also currently three Independent Persons that assist the Monitoring Officer in dealing with standards complaints against Councillors. They attend the meetings of the Committee when there is a Standards focus.
- 10) It is noted that the Audit and Standards Committee have taken a number of steps to help them undertake their roles and responsibilities. This has included taking independent advice and training. Officers of the Council and KPMG also attend the Committee to present reports and to answer questions raised.

Annual Accounts

- 11) Those charged with governance (the Audit and Standards Committee) are required to approve the financial statements. In order to do this effectively, the Audit and Standards Committee obtains the necessary assurances to discharge this responsibility via a number of submissions/reports.
- 12) In July 2017, the Senior Finance Manager (Strategic Finance) reported upon the arrangements for the production of the 2016/17 annual accounts and provided members of the Audit and Standards Committee with a summary of the Statement of Accounts. An explanation of the core statements and a number of the key notes to the accounts was provided. External Audit expressed satisfaction with the arrangements.

- 13) The Head of Strategic Finance presented the audited annual accounts at the September 2017. The Audit and Standards Committee reviewed the accounts and questioned the officers on items contained therein. Where additional information was requested, this was provided to the Committee promptly in a suitable form for discussion.
- 14) The external auditors presented a report of the findings from their audit of the accounts to the September 2017 Audit and Standards Committee. A Certificate of Completion of the Audit could not be issued until work had been concluded on the outstanding objections received from local electors. These objections related to the Council's Lender Option Borrower Option (LOBO) loans, and the Council's Private Finance Initiative Schemes. Due to the formal process necessary to deal with the objections, it was noted that the statutory deadline of 30th September for the completion of the audit would not be achieved.
- 15) The ISA 260 report outlined the work undertaken on the 2016/17 accounts to support KPMG's conclusions. KPMG's report did not identify any material misstatements in the accounts. A small number of minor errors and presentational adjustments were required. The Council addressed these where significant.
- 16) The accounts for 2016/17 were prepared to meet the required timescales for the shorter closedown being introduced from 2017/18. The accounts were given an unqualified opinion together with an unqualified Value for Money conclusion by the External Auditor.

System of Internal Control

- 17) 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 (AGS), 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.
- 18) The 2016/17 Annual Governance Statement (AGS) was presented to the Audit and Standards Committee in July 2017 following sign off by the Chief Executive and Council Leader. No significant control weaknesses were identified through the annual governance process.
- 19) Internal Audit planning arrangements are designed to cover the significant risks of the Council and the plans are endorsed by the Audit and Standards Committee. The plan for 2017/18 was presented to the Committee in April, along with a report describing the process for

compiling the plan. The new plan for 2018/19 is on the same agenda as this report.

- 20) In line with the Public Sector Internal Audit Standards, a report was presented to the Audit and Standards Committee in November 17, to outline the mid-year review process undertaken by Internal Audit. This resulted in revisions to the work programme for internal audit. The revised plan was ratified by members at the November meeting.
- 21) 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.
- 22) Bi-annual update reports are provided to the Committee to outline progress on the implementation of recommendations contained within the high opinion reports. The tracker report is used to monitor all recommendations until they are satisfactorily implemented. In addition, issues would be raised from other reports, where Internal Audit are aware of serious breaches of control arrangements or where it is felt that management are not adequately dealing with matters of concern.
- 23) The Senior Finance Manager (Internal Audit) produces an independent annual report which was presented to the September Audit and Standards Committee which highlights the work undertaken on the Council’s control environment and her opinion on the Council’s control arrangements. For 2016/17 the Senior Finance Manager (Internal Audit), was satisfied that the core systems include control arrangements which were adequate to allow the Council to conduct its business appropriately.

Governance Arrangements (and compliance with laws and regulations)

- 24) The Council constantly reviews key governance documents, such as the Constitution and the Leader’s Scheme of Delegation, supported by the Standing Orders and Financial Regulations to ensure that they are fit for purpose.
- 25) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement (AGS). The 2016/17 AGS highlighted no significant control weaknesses.
- 26) Every executive report must include financial and legal implications and equal opportunities implications as a minimum. The financial and legal implications are signed-off following submission to the relevant professional services.
- 27) The Senior Finance Manager (Internal Audit) presented her independent annual report to the September meeting of the Audit and Standards Committee, which supported the Council’s Annual Governance Statement. The report gave details of the audit coverage and outlined how overall the

response to recommendations made by Internal Audit was positive, with the majority being accepted by management. No material non-compliances with law and regulations have been identified through the audit work performed.

- 28) The Senior Finance Manager for Internal Audit retains the independent access rights to the Chief Executive of the Council, along with the Chair and other members of the Audit and Standards Committee. This has worked well in the year.

Counter Fraud Arrangements

- 29) Counter fraud resources are allocated in the annual Internal Audit plan as presented to the Audit and Standards Committee in April 2017.
- 30) Internal Audit conducted three pro-active counter fraud exercises in 2017/18. Issues from these reviews have been discussed and actions agreed with the relevant managers in the areas concerned. The internal audit service will continue to conduct audits in this area in the coming year.
- 31) In July 2017, a report was produced for the Audit and Standards Committee to summarise the reactive and pro-active fraud activity undertaken by Internal Audit in 2016/17.
- 32) Any Individual incidents of a material scale will continue to be reported to the Audit and Standards Committee by Internal Audit, and the Audit and Standards Committee can call in officers to respond to the issues raised. Internal Audit has detected no material frauds during the year (to date).
- 33) The Cabinet Office is responsible for the National Fraud Initiative and the exercise for 2016/17 is being concluded. The required data sets were submitted in October 2016, which resulted in a significant number of data matches being received in early 2017.
- 34) The matches were distributed to the relevant sections across the Council and Capita who were responsible for checking these matches, taking the appropriate actions (recovery and sanctions) and for recording the outcomes onto the central NFI database. There are a number of different categories of matches dependent upon the strength of the data. The Council concentrates effort in those areas where the most significant results are found. Internal Audit has provided support throughout the year to services to ensure the strong data matches were investigated and the outcomes appropriately recorded.
- 35) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed. Much of the fraud investigation work is undertaken by management supported by Internal Audit and HR.

Risk Management

- 36) The Council has a risk management framework in place that has been agreed by Cabinet. The Corporate Risk Manager attended the Audit and Standards Committee in January 2018 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. The report included the risk trend analysis as well as the current and emerging risk to delivery of the Council's strategic objectives and the controls in place to manage those risks. Audit and Standards Committee members are given the opportunity to question any issues raised.
- 37) The focus of attention is now on developing risk management practice maturity, both at an operational level and through close alignment and integration between the risk and performance management processes.
- 38) 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, and 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.

Standards Issues

- 39) Reports were submitted to the Committee in September 2017 and November 2017 providing an update on complaints made and actions taken, along with a review of procedures and amendments to the members Code of Conduct.

Requested actions

- 40) Members are asked to confirm that this report gives an accurate reflection of the items that they have received and considered throughout the year.
- 41) Members are also asked to confirm that they 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.