

AUDIT COMMITTEE

Meeting held 15 May 2012

PRESENT: Councillors Ray Satur (Chair), Bob Johnson, Martin Lawton and Joe Otten.

Co-opted Non-Voting Members

Beryl Seaman and Rick Plews.

Officers in attendance

John Mothersole (Chief Executive), Alistair Griggs (Director of Modern Governance), Allan Rainford (Deputy Director of Finance), Stephen Bower, Clive Sellens, Kayleigh Inman and Helen Molteno (Internal Audit), Lynne Bird (Director of Legal Services), David Phillips (Audit Commission), David Caulfield (Head of Planning), Paul Billington (Head of Culture and Environment) and Dave Ross (Democratic Services).

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1. APOLOGIES FOR ABSENCE

- 1.1 Apologies for absence were received from Councillors Shaffaq Mohammed and Jack Scott.

2. DECLARATIONS OF INTEREST

- 2.1 Rick Plews declared a personal interest in item 13 (Progress Report on Financial/Commercial Monitoring of External Relationships) as he was a Trustee/Director of the Sheffield Industrial Museums Trust and the Seven Hills Leisure Trust.

3. MINUTES

- 3.1 The minutes of the meeting of the Committee held on 11 January 2012 were approved as a correct record.

4. INTERNAL AUDIT PLANNING REPORT 2012/13

- 4.1 Kayleigh Inman (Finance Manager, Internal Audit) introduced a report of the Executive Director, Resources setting out Internal Audit's future strategy and Work Programme for 2012/13, in light of the budget reductions in 2011/12 and over the next two years. The strategy for future Internal Audit work would focus on some specific areas of activity which could provide assurance that risk and internal control issues were being properly managed by Directors in service areas. Following discussions with the Director of Finance and the Executive Director Resources, a fundamental shift in the utilisation of Internal Audit's resources was proposed, structured around the following:

- Further utilisation of the information provided by Directors under the Annual Governance Statement process.
- Further utilisation of the Corporate Risk Management process.
- Utilisation of the corporate performance management system 'Performance Plus' as part of the Performance Management Framework.
- Internal Audit of Projects and Programmes
- Internal Audit of Partnership arrangements, including contracts and grant regimes
- Provision for re-active work on whistle blowing allegations and mismanagement issues.
- Re-active counter fraud work.
- Pro-active counter fraud work, such as the National Fraud Initiative.
- Expansion of the pro-active counter fraud exercises.
- Main Financial Systems work.
- Risk based audits of systems, services and functions.

4.2 The Finance Manager explained that the approach would also ensure sufficient coverage of procurement arrangements and the major Council contracts, together with maintaining the ICT contract that Internal Audit currently had in place with Salford Audit Services. In terms of building in resilience, initial discussions had been held with the Core Cities Authorities who were all receptive to the development of a protocol to govern resource sharing and this would be explored further with neighbouring authorities. Also the planning process would be very challenging and need to be much more flexible and responsive than in previous years.

4.3 **Resolved** that:

- (a) in respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice, the Internal Audit programme of work for 2012/13 attached to the report now submitted, be endorsed; and
- (b) the Chief Internal Auditor be requested to submit a progress report to each meeting of this Committee in 2012/13 on delivering the new approach to Internal Audit activity.

5. **COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS**

5.1 Stephen Bower (Finance Manager, Internal Audit) introduced a report of the Executive Director, Resources that highlighted to the Committee how it could demonstrate to the External Auditors that it had exercised the required oversight in order to meet the requirements of the International Standards on Auditing.

5.2 **Resolved** that:

- (a) the Committee confirms that the contents of the report now submitted gives an accurate reflection of the reports that the Committee has

received and considered during 2011/12 and that it has a significant overview at the highest level of the Council's systems of internal control, so it is assured that it is fulfilling the requirements of "those charged with governance" under the International Auditing Standards;

- (b) the Chief Internal Auditor be requested to examine how reports that are made available to Members and Officers on the Council's intranet, such as the recent Fraud Response Plan, are made available to the Committee's Independent Members;
- (c) the Director of Legal Services and the Director of Human Resources be requested to examine having a simple form to assist people that want to whistleblow; and
- (d) the Director of Human Resources be requested to (i) submit the revised Whistleblowing Policy to the Committee and (ii) ensure that, for any compulsory e-learning, staff have been tested to give assurance of their understanding of that element.

6. **AUDIT COMMISSION REPORT – PROTECTING THE PUBLIC PURSE**

6.1 Clive Sellens (Finance Manager, Internal Audit) introduced a report of the Executive Director, Resources that (a) informed the Committee of the contents and key recommendations of the Audit Commission's annual report on 'Protecting the Public Purse' published in November 2011 and (b) provided an update of fraud investigation activity within the Council. Appended to the report was a completed checklist for 'those responsible for governance' that identified the key fraud risks.

6.2 **Resolved** that:

- (i) the contents of the report now submitted and the completed checklist for 'those responsible for governance' appended to the report, be noted; and
- (ii) Internal Audit's ongoing implementation of counter fraud initiatives throughout the authority is supported by the Committee.

7. **CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2010/11**

7.1 David Phillips (Appointed Auditor & Senior Audit Manager, Audit Commission) submitted a report on the certification work on the Council's claims and returns for 2010/11 in relation to grants and subsidies it received from the Government and grant paying bodies. Fifteen claims had been certified with a total value of £494m and, arising from the work, nine had been certified without amendment, compared with five for the previous year. The report included the recommendations arising from the work and details of progress made in implementing the recommendations arising from previous certification work.

7.2 **Resolved** that:

- (a) the report now submitted be noted; and

- (b) the Director of Finance be requested to submit a report to the Committee on progress in implementing the External Auditor's recommendations arising from the certification of the Council's claims and returns in 2010/11.

8. EXTERNAL AUDITOR APPOINTMENT FOR 2012/13 AND FUTURE YEARS

8.1 David Phillips (Appointed Auditor & Senior Audit Manager, Audit Commission) reported that KPMG had been appointed as the External Auditor for the Council and the Yorkshire and the Humber area for five years from 1 September 2012. The Audit Commission would continue as the Council's External Auditor until September. He also referred to the reduced audit fees arising from the new contract.

8.2 **Resolved** that the information now reported be noted.

9. CODE OF CORPORATE GOVERNANCE

9.1 Alistair Griggs (Director of Modern Governance) introduced a report of the Deputy Chief Executive that contained a revised Code of Corporate Governance. The Code outlined why good governance was important, how the Council defined this and how it would ensure that it took place. The report explained that good governance ensured that the Council fulfilled its purpose wisely and openly with all due accountability to local people. The Code was a key tool for ensuring the quality of the Council's governance arrangements and a clear public statement of the principles the Council would follow. The Director stated that the revised Code had been approved by the Council Leader and was shorter and fit for purpose.

9.2 **Resolved** that:

- (a) the Revised Code of Corporate Governance be noted;
- (b) the Director of Modern Governance be requested to (i) discuss with relevant officers, the testing of whether the Code helped staff do their job, possibly through existing staff surveys and (ii) discuss with the Leader and the Chief Executive, whether the Code should reflect having a leadership role beyond the City e.g. City Region; and
- (c) the Director of Human Resources be requested to include a shorter version of the Code as part of staff induction.

10. SECTION 106 PLANNING INCOME

10.1 Following a request at the meeting of this Committee on 11 January, 2012, David Caulfield (Head of Planning) introduced a report of the Executive Director, Place that provided further detail and progress in response to the recommendations of an internal audit of Section 106 Planning Income concluded in August 2010. Appendix 1 of the report contained a summary of the recommendations and actions to date.

10.2 **Resolved** that:

- (a) the report now submitted be noted; and
- (b) the Head of Planning and Director of Finance be requested to (i) undertake further work on the reconciliation of the databases to improve on the 93% of the value of the Section 106 Agreements that had been reconciled and (ii) submit a progress report to the next meeting of the Committee

11. **WORK PROGRAMME**

11.1 Dave Ross (Principal Committee Secretary, Democratic Services) introduced a report of the Director of Modern Governance on a provisional Work Programme for the Committee for 2012/13. He outlined proposed training for members of the Committee and that the work programme would include an outstanding item on the level of bad debt that remained unpaid or written off and the items requested at this meeting.

11.2 **Resolved** that:

- (a) the Committee's Work Programme now submitted be approved with the inclusion of the following items:
 - The Level of Bad Debt that Remained Unpaid or Written Off
 - Risk Management
 - A review of the Independent Members' first year
 - A progress report to each meeting on delivering the new approach to Internal Audit activity
 - Revised Whistleblowing Policy
 - A progress report in implementing the District Auditor's recommendations arising from the certification of the Council's claims and returns in 2010/11.
 - A progress report on the reconciliation of the databases to improve on the 93% of the value of the Section 106 Agreements that had been reconciled;
- (b) the Director of Modern Governance and Director of Finance, in consultation with the Chair of the Committee, be requested to arrange a half day training session for members of the Committee on an introduction to audit and the role of the Committee, setting the work programme and the Statement of Accounts; and
- (c) the Director of Modern Governance and the Chief Internal Auditor be requested to clarify the process for consideration of High Opinion Audit reports at this Committee.

12. **EXCLUSION OF THE OF THE PRESS AND PUBLIC**

12.1 **Resolved** that the public and press be excluded from the meeting before

discussion takes place on the following item of business to be considered 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.

13. **FINANCIAL/COMMERCIAL MONITORING OF EXTERNAL RELATIONSHIPS**

Progress Report

- 13.1 **Resolved** that, at the request of the Executive Director, Resources, the report be withdrawn from consideration and an updated report be submitted to the next meeting of the Committee.

Report back from the Working Group

- 13.2 The Committee received a report of the Director of Modern Governance that provided details of the key issues and recommendations from the Working Group that examined the financial and commercial risks in relation to the Council's relationship with Museums Sheffield (Sheffield Galleries and Museums Trust). The Working Group was established at the meeting of the Committee on 11 January 2012 to allow a more detailed examination of the financial and commercial risks of a small number of the Council's major external relationships.
- 13.3 The Chair of the Committee, Councillor Ray Satur, highlighted the two key issues arising from the Working Group relating to (a) the governance structure and reporting back arrangements and that the outcome should provide a template for all the Trusts and (b) the role of Councillors on Trust Boards.
- 13.4 **Resolved** that:
- (a) the report and key issues raised by the Working Group be noted;
 - (b) the Deputy Chief Executive be requested to review the role of Councillors on all Trust Boards;
 - (c) the Director of Culture and Environment be requested to prepare an A4 diagram that shows clear, simple and transparent reporting arrangements and governance structure for the Council's relationship with Museums Sheffield and this is circulated to members of the Committee for comment; and
 - (d) the diagram developed in (c) above, be used as a template to explain the reporting arrangements and governance structure for the Council's relationship with all the other Trust Boards.

14. **NEXT MEETING**

- 14.1 **Resolved** that meeting dates for 2012/13 would be circulated to members of the Committee.

Signed _____
(Chair)

Date _____

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