

AUDIT COMMITTEE

ANNUAL REPORT 2012/13

To be considered at the Council Meeting on 4 September 2013



FOREWORD

I am pleased to present this report to Council on the work of the Audit Committee in 2012/13. The report shows how the Committee has contributed to monitoring and improving the Council's governance and internal controls.

It has been another productive and busy year. Over five meetings we have focussed on our core business which included approving the Council's accounts. We have also followed up issues where we feel this would add value, such as in monitoring the recommendations from High Opinion Audit reports. In addition, the Committee has been kept up to date with latest developments, such as the Public Sector Internal Auditing Standards.

The Committee has been monitoring progress in delivering Internal Audit activity against the new auditable areas. It is pleasing to note that there have been no issues arising from this change.

Steve Gill, Chief Internal Auditor, took early retirement in March 2013 after 27 years with the Council and 15 years in that position. Steve had been heavily involved in the establishment of this Committee and its smooth running over the years. Following his retirement, Laura Pattman (Assistant Director Finance) took responsibility for Internal Audit and Kayleigh Inman (Senior Finance Manager) was appointed as the Audit Lead. I look forward to working with them both.

I am always keen to see individuals recognised for their hard work and both the External Auditor and the Committee congratulated Clair Sharratt (Finance Manager, Strategic Finance) for her work on the Accounts, particularly in respect of the implementation of the new Capital Accounting System.

We are always looking at ways of improving the training and development of members of the Committee and have identified risk management and fraud as two areas that can be developed.

In May 2011, we appointed two independent co-optees who have become valuable members of the Committee. It is with regret that we were informed that Beryl Seaman will be leaving the Committee at the end of this year for pastures new. Although she does not leave until December, I would like to thank Beryl for her commitment and contribution to the Committee and will miss working with her.

The Committee cannot work effectively without the contribution of its members whose commitment to effective management and Audit in Sheffield City Council deserves our gratitude. I would also like to place on record my thanks to John Mothersole and his Executive Management Team for the manner in which they help and support not only the function of the Audit Committee but also the spirit of open full and frank release of information. I value the support from officers across the Council and the External Auditor and his Team.

It would be remiss of me not to thank David Ross from Democratic Services and Councillor Joe Otten, Deputy Chair, for their support and assistance and for making my job as Chair of the Committee easier.

Finally, there are no issues or areas of concern I wish to draw to the attention of Council and I recommend that Council receives this report on the work of the Audit Committee in 2012/13.



Councillor Ray Satur, Chair of the Audit Committee 2012/13

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1. INTRODUCTION

- 1.1 This is the sixth year of the Audit Committee and this Annual Report highlights the work of the Audit Committee and how it has contributed to monitoring and improving the Council's corporate governance and internal controls.

2. COMMITTEE INFORMATION

2.1 Meetings/Membership

- 2.1.2 There were five meetings of the Committee during the year and the Members were:

- Councillor Ray Satur (Chair)
- Councillor Joe Otten (Deputy Chair)
- Councillor Anders Hanson
- Councillor Steve Jones
- Councillor Martin Lawton
- Councillor Sioned-Mair Richards
- Rick Plews - Independent non-voting co-opted member
- Beryl Seaman - Independent non-voting co-opted member

2.2 Support to the Committee

- 2.2.1 The Committee has benefitted from being well supported by Council Officers. This included the Chief Executive, Executive Director, Resources, Director of Finance, Chief Internal Auditor, Deputy Director of Finance, Director of Modern Governance, Director of Legal and Governance and officers in Finance, Internal Audit, Modern Governance, Democratic Services and other Portfolios. There has also been close working with the Director and his Senior Audit Manager at KPMG, the Council's External Auditor.

3. WORK OF THE COMMITTEE DURING THE YEAR

- 3.1 This section contains a summary of the work undertaken during the year and highlights any particular issues that the Committee raised. The Committee's terms of reference and a list of the items considered are attached as appendices to the report.

3.2 **Work Programme**

- 3.2.1 At the start of the year there is discussion with senior officers and the Chair and Deputy of the Committee on the work programme for the year. This is based around the terms of reference and items the Committee requests during the year. The work programme is then reviewed at each Committee meeting.

3.3 **Internal Audit Activity**

- 3.3.1 The Committee considered:

- The Chief Internal Auditor's Annual Report 2012
- Progress in Delivering Internal Audit Activity
- Progress on High Opinion Audit Reports

- Internal Audit Plan 2013/14
- Public Sector Internal Auditing Standards

Chief Internal Auditor's Annual Report 2012

- 3.3.2 The report highlighted the work undertaken during the year by Internal Audit and supported the Annual Governance Statement. The Committee noted the Chief Internal Auditor's opinion that he was satisfied that the core systems included control arrangements which were adequate to allow the Council to conduct its business appropriately.

Delivering Internal Audit Activity

- 3.3.3 Last year's Internal Audit Planning report informed the Committee of the fundamental shift in the utilisation of Internal Audit's resources. Reports were received during the year on progress in delivering Internal Audit activity against the new auditable areas and there were no issues or concerns reported to or raised by the Committee.
- 3.3.4 As a result of the Chief internal Auditor taking early retirement in March 2013 and the impact of the budget reductions, a new Finance Management structure was introduced. Laura Pattman, Assistant Director Finance (Business Partnering, Children, Young People and Families) took responsibility for Internal Audit from 28 March 2013. Kayleigh Inman (Finance Manager) was also appointed as the Audit Lead. A report was requested for January 2014 on progress in the operation of the new Internal Audit Structure.

Internal Audit Plan 2013/14

- 3.3.5 The Committee endorsed the programme of Internal Audit work for 2013/14 and noted that there would be a quarterly progress report.

Public Sector Internal Auditing Standards

- 3.3.6 The Public Sector Internal Auditing standards became mandatory from 1 April 2013. The Committee received details of the new requirements, how these would apply in the public sector, the arrangements that were in place in Internal Audit and the additional work required to ensure compliance with the Standards and where the Council's approach was different from the Standards.
- 3.3.7 The work undertaken was endorsed and the Committee requested a progress report in January 2014.

High Opinion Audit Reports

- 3.3.8 An auditable area receiving a 'High Opinion' was considered by Internal Audit to be an area where the risk of the activity not achieving its objectives is high and sufficient controls to manage risks were not present at the time of the review.
- 3.3.9 The Committee continued to monitor progress made against recommendations in High Opinion Audit reports. In addition, the Executive Management Team was also receiving update reports. It was agreed that future progress reports would include an action tracker to monitor outstanding actions on High Opinion Audits.
- 3.3.10 Reports from the Executive Director, Place were submitted detailing action to address outstanding actions from recommendations in the Audit reports relating to Financial Management from Trusts and Marketing Sheffield (further information is included at paragraph 3.7.10).

3.4 External Audit

3.4.1 The Committee considered:

- Audit Plan 2012/13
- Certification of Claims and Returns Annual Report 2011/12
- Annual Audit Fee Letter 2013/14
- IT Risk Assessment Summary Report

Audit Plan 2012/13

3.4.2 The Audit Plan described how KPMG, as the Council's External Auditor, would deliver the audit of the financial statements for the Council and also set out the approach to value for money work for 2012/13. The key risks were also outlined that would be the focus during the audit of the financial statements relating to the Council's savings plans, Highways PFI, Digital Region Limited, property plant and equipment and pensions' costs and liabilities.

Certification of Claims and Returns Annual Report 2011/12

3.4.3 The Director, KPMG submitted a report on the certification work on the Council's claims and returns for 2011/12 in relation to grants and subsidies it received from the Government and grant paying bodies. Five grants and returns had been certified with a total value of £481m and, arising from the work, four had been certified without amendment. The report included the recommendations arising from the work and details of progress made in implementing the recommendations arising from previous certification work.

3.4.4 A report from the Executive Director, Resources in April 2013 indicated that the recommendations from the Annual Report had been implemented.

Annual Audit Fee Letter 2013/14

3.4.5 The Director, KPMG, submitted details of the External Audit Work and Fee for the Council for 2013/14 and a report of the Audit Commission on the 'Proposed Work Programme and Scale of Fees 2013/14'. He reported that the planned fee was unchanged in 2013/14. However, although the proposed fee for work on the certification of grant claims and returns was £36,118, the figure on the Audit Commission's website indicated £46,100. The Director was awaiting further information on the difference in the figures.

IT Risk Assessment Summary Report

3.4.6 A report was submitted on the annual Information Technology risk assessment of the Council's IT arrangements. The report included an action plan containing the agreed recommendations from the 2010/11 report and the findings identified during the 2011/12 review.

3.5 Regulatory Framework and Risk Management

3.5.1 The Committee considered:

- Annual Governance Statement 2011/12
- Compliance with International Auditing Standards
- Financial/Commercial Monitoring of External Relationships
- Audit Commission Report - Protecting The Public Purse/Update on Counter

- Fraud Initiatives
 - Strategic Risk Management

Annual Governance Statement 2011/12

- 3.5.2 The Council's Annual Governance Statement (AGS) was submitted in September 2012. It forms part of the Council's Statutory Accounts and explains how the Council complies with the Code of Corporate Governance. The AGS identified significant control weaknesses in three areas (relating to Museums Sheffield, HR Data Reliability Concerns and Improving Compliance with Payment Card Industry Regulations) and set out the action being taken to address those weaknesses.
- 3.5.3 It was noted that Sheffield took a more detailed approach to producing its AGS than a number of other local authorities and the process had also been audited by Internal Audit and they had commented that it was low risk and well managed.
- 3.5.4 A report giving details of the progress made in mitigating the three control weaknesses was considered in January 2013. The Committee asked that the Annual Governance Statement for 2012/13 was considered at two meetings next year.

Compliance With International Auditing Standards

- 3.5.5 The report of the Assistant Director Finance (Business Partnering, Children Young People and Families and Internal Audit) highlighted to the Committee how it could demonstrate to the External Auditor that it had exercised the required oversight in order to meet the requirements of the International Standards on Auditing.
- 3.5.6 The Committee confirmed that the report gave an accurate reflection of the reports that the Committee has received and considered throughout the year and it has an overview of the Council's systems of internal control so that it is assured that it is fulfilling the requirements of "those charged with governance" under the International Auditing Standards.

Commercial/Financial Monitoring of External Relationships

- 3.5.7 The Committee continued to receive reports providing an update on monitoring of the financial and commercial risks of the Council's major external relationships.

Audit Commission Report - Protecting The Public Purse

- 3.5.8 The Assistant Director Finance (Business Partnering, Children Young People and Families and Internal Audit) submitted a report that informed the Committee of the contents and key recommendations of the Audit Commission's annual report on 'Protecting the Public Purse 2012' and 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.
- 3.5.9 It was agreed that the Chair of the Committee and officers would examine the Rotherham model, where the Audit Committee Chairs of public bodies examined fraud and risk three times each year, and if this would be useful for Sheffield or could be replicated across South Yorkshire. Also, consideration would be given to a possible annual session for the Committee on emerging issues on fraud.

Strategic Risk Management

- 3.5.10 The Corporate Risk Manager gave a presentation on the Council's current Risk Management arrangements. The Committee noted the assessment of the Council's Risk Management arrangements and emerging risks and endorsed the measures

being taken to strengthen those arrangements and mitigate those risks.

- 3.5.11 The Corporate Risk Manager proposed to make arrangements for training/briefings on risk management for members of the Committee in 2013/14.

3.6 **Accounts**

- 3.6.1 The Committee considered:

- Summary of the Statement of Accounts
- Statement of Accounts 2011/12
- Annual Governance Report 2011/12

Statement of Accounts and Annual Governance Report 2011/12

- 3.6.2 In August 2012, the Committee received a report of the Executive Director, Resources providing a summary of the 2011/12 Statement of Accounts, including a number of the key notes to the accounts. The report also outlined the approval process for the statement of accounts, comments on the financial performance of the Council and included information relating to debtor income write off, requested previously by the Committee. The Statement of Accounts was considered by the Committee in September 2012.

- 3.6.3. The External Auditor's Annual Governance Report summarised the findings from the 2011/12 audit of the accounts and which was substantially complete. The report included the messages arising from his audit of the Council's Financial Statements and the results of the work he had undertaken to assess the Council's arrangements to secure value for money in the use of resources. The report also outlined the key audit risks and findings relating to Digital Region Ltd, Trading Standards, Housing Revenue Account Reform, implementation of the new capital accounting system, the valuation of property, plant and equipment, heritage assets and pensions accounting. He proposed to issue an unqualified value for money conclusion which confirmed the Authority had satisfactory corporate arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

- 3.6.4 The Committee approved the Accounts and accepted the Annual Governance Report. The Executive Director, Resources submitted a report in April 2013 on progress in implementing the recommendations from the Annual Report relating to reconciliation.

3.7 **Follow up reports**

- 3.7.1. A number of reports were submitted at the request of the Committee.

Whistleblowing Policy

- 3.7.2 A report was submitted in August 2012 that provided information on activity under the Whistleblowing Policy since the revised policy was introduced in April 2010, set out the revised policy and procedure which incorporated feedback on its operation and informed the Committee of the recruitment and training of additional contact advisors to support employees who raised concerns under Whistleblowing and Dignity and Respect.

- 3.7.3 The Committee requested the Head of Human Resources, Specialist and Advisory Services to test with staff in a year's time, the effectiveness of the revised Policy,

possibly though the workforce survey.

South Yorkshire Digital Region

- 3.7.4. The Chief Executive submitted a report in September 2012 providing an update on the latest progress of the Digital Region Broadband project, of which Sheffield City Council was a shareholder and customer. The report outlined the background to Digital Region Limited (DRL) and alternative options of closure and a new business model. He indicated that there may be a viable route going forward of developing a new model in collaboration with a major telecommunications company and to procure a new supplier who would maintain the network with responsibility for operating costs, sales, marketing and revenues. However, it was recognised that this was a clear area of risk.

External Appointments

- 3.7.5. Arising from a request from the meeting of the Committee on 15 May 2012 that "the Deputy Chief Executive be requested to review the role of Councillors on all Trust Boards", the Director of Modern Governance submitted a report containing guidance on the appointment of Members and Officers to external organisations. He stated that the guidance had been considered by the Executive Management Team and no comments had been received from the Whips and the three political Group Leaders.
- 3.7.6. The Committee suggested a number of minor amendments and requested that the guidance was submitted to Cabinet and Council, as appropriate, and that a survey is undertaken in a year's time on how useful the guidance had been for those serving on external organisations. In addition, the Director of Legal Services was requested to consider whether separate guidance was required for the appointment by the Council of members of the public to Charitable Trusts.

South Yorkshire Pension Queries

- 3.7.7. The Committee has been monitoring the backlog of South Yorkshire pensions' queries. It was informed in January 2013 that the backlog had been cleared.

Progress on ICT Audit

- 3.7.8. The External Auditor submitted a report in August 2012 on the annual Information Technology (IT) risk assessment of the Council's IT arrangement on the management of ICT User accounts. The central finding of the report highlighted the lack of clarity in policy terms and Council direction to its IT partner, Capita IT Sheffield, on suspension and deletion of dormant User accounts.
- 3.7.9. A progress report from the Director of Information Services was considered in January 2013 indicating that this issue had been the focus of activity by Business Information Solutions and Capita IT Sheffield and had resulted in a comprehensive action plan. The Director indicated that all the actions set out in the Appendix to the report would be completed by 30 April 2013.

Marketing Sheffield

- 3.7.10. The Committee raised concerns that not all the recommendations from the Internal Audit report on Marketing Sheffield had been implemented. The Executive Director, Place submitted a report in January 2013 to provide assurance that significant progress was being made in response to the 2012 audit recommendations and referred to follow-up audit work being undertaken by Internal Audit. Arising from a report on that follow-up work considered by the Committee in April 2013, a further report was requested for July 2013 on the recommendations/actions that had not

been implemented.

4. Training and Development

4.1 A briefing session was held to assist members in advance of consideration of the Statement of Accounts and Annual Governance Report.

4.2 Councillor Joe Otten and Rick Plews attended a useful CIPFA training event 'The Influential Audit Committee' in January 2013 which focussed on the impact Audit Committees can have to improve governance, assurance and public accountability.

4.3 It is proposed that training/briefings on risk management would be arranged for 2013/14. The Committee also requested officers to examine whether there could be an annual session on emerging issues on fraud.

4.4 Consideration was also being given to the Rotherham model where the Audit Committee Chairs of public bodies examined fraud and risk three times a year and whether there could be a Sheffield or South Yorkshire model.

5. Outcomes

5.1 The Audit Committee aims to add value through its activity and, in particular, it has:

- Approved the Statement of Accounts.
- Accepted the Annual Governance Report.
- Demonstrated that it has a significant overview 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.
- Noted that the Chief Internal Auditor was satisfied that the core systems included control arrangements which were adequate to allow the Council to conduct its business properly.
- Monitored the actions arising from the Annual Governance Statement.
- Requested follow-up reports, where appropriate.
- Requested that an action tracker is included in the High Opinion Audit progress reports.

6. The Year Ahead

6.1 The Committee will seek to build on what it has achieved this year and continue to work within its terms of reference and address issues that arise during the year.

6.2 It will look to include training on risk management and emerging issues on fraud. In addition, consideration will be given as to whether to replicate the Rotherham model where the Audit Committee Chairs of public bodies examine fraud and risk three times a year.

6.3 Beryl Seaman is one of the two Independent Co-opted Members appointed in 2011 and has indicated that she will be standing down at the end of 2013. As a result, there will be a recruitment process to fill her vacancy.

Councillor Ray Satur, Chair of the Audit Committee 2012/13

Appendix A - Items Considered During the Year

1 August 2012

- Progress Report on Human Resources/Payroll Procedures
- Whistleblowing Policy
- Section 106 Planning Income
- Progress on High Opinion Audit Reports
- Summary of Internal Audit Output
- IT Risk Assessment Summary Report
- Financial/Commercial Monitoring of External Relationships
- Summary of the Statement of Accounts
- Work Programme

26 September 2012

- Annual Governance Statement 2011/12
- External Audit Annual Governance Report 2011/12
- Statement of Accounts 2011/12
- Chief Internal Auditor's Annual Report 2012
- Delivering Internal Audit Activity
- South Yorkshire Digital Region
- External Appointments
- Work Programme

13 December 2012

- South Yorkshire Pension Queries
- Annual Audit Letter 2011/12
- Audit Arrangements 2012/13
- Certification of grants and Returns Annual report 2011/12
- IT Risk Assessment Progress Report
- Delivering Internal Audit Activity
- Audit Committee Annual Report 2011/12
- Financial/Commercial Monitoring of External Relationships
- Marketing Sheffield
- Work Programme

31 January 2013

- South Yorkshire Pension Queries
- Progress on ICT Audit
- External Audit Plan 2012/13
- Delivering Internal Audit Activity
- Progress on High Opinion Audit Reports
- Annual Governance Statement 2011/12 – Progress Report
- Marketing Sheffield Progress Report
- Work Programme

17 April 2013

- Audit Commission Report on Protecting the Public Purse/Update on Counter Fraud Initiatives
- Internal Audit Plan 2013/14
- Compliance with International Auditing Standards
- Public Sector Internal Auditing Standards
- Delivering Internal Auditing Activity Progress Report

- Annual Audit Fee Letter 2013/14
- Response to Audit Commission Reports
- Strategic Risk Management
- Marketing Sheffield – Update on Follow-up Work
- Work Programme

Appendix B - Audit Committee Terms Of Reference

- (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 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.

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