



Audit and Standards Committee Report

Report of: Tony Kirkham, Interim Director of Finance and
Commercial Services

Date: 22nd June 2023

Subject: Compliance with International Standards on Auditing

Author of Report: Linda Hunter, 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 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 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: L Hunter
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
Compliance with International Standards on Auditing (ISA)

April 2023

Introduction

- 1) **International Standards on Auditing (ISA)** are professional standards for the performance of financial audits. 'Those charged with governance' oversee an organisation's systems for monitoring risk, financial control and compliance with the law. For Sheffield City Council this is the Audit and Standards Committee.
- 2) As part of the International Standards on Auditing (ISA) there is a requirement for 'those charged with governance' 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, together with overseeing the financial reporting process.
- 3) For the past sixteen years, this report has 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 therefore meet the requirements of the International Standards on Auditing.
- 4) From 2018/19 the external auditor for SCC changed from KPMG to Ernst and Young (EY). The change in auditor provided an opportunity for revisions to be made to the format of this report to reflect the requirements and specifications of EY auditors.

Key Requirements of the International Auditing Standards

- 5) The key elements that are required to be covered by members in relation to International Auditing Standards (UK&I) (IAS) are noted below:
- 6) Under ISA 240 the Council's appointed external auditors (EY) are required to understand how 'those charged with governance' exercise oversight of management processes for:
 - Identifying and responding to the risk of fraud in the Council, and the internal control that management has established to mitigate these risks;
 - Determining whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.
 - Assessing the risk that the financial statements may be materially misstated due to fraud or error.
- 7) ISA 250 requires that external auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.

- 8) 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

- 9) The following sections summarise how members of the Audit and Standards Committee have been provided with assurance that key elements of the Council's internal control systems are being reviewed and reported upon. This is a consolidation report of items that have been presented to the Audit and Standards Committee throughout 2022/23, and covers the: -
- Annual Accounts (2021/22)
 - System of Internal Control
 - Governance Arrangements (and compliance with laws and regulations)
 - Counter Fraud Arrangements
 - Risk Management
 - Standards Issues
- 10) The Audit and Standards Committee comprises of 7 non-executive members of the Council with proportionality applied and a non-voting co-opted member.
- 11) There are currently two Standards Committee Independent members and they attend the meetings of the Committee when there is a Standards focus.
- 12) The Audit and Standards Committee members 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 External Audit also attend the Committee to present reports and to answer questions raised.

Annual Accounts

- 13) 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.

14) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the accuracy of the Annual Accounts:

- Report from officer discussing the unaudited Statement of Accounts 21/22 – (July 22)
- Role of the Audit and Standards Committee and Training plan – (July 22)
- EY Audit Plan 21/22 – (Sept 22)
- Formal response from officers to Audit ISA 260 recommendations – (Sept 22)
- EY update on progress on the 21/22 Accounts – (Feb 23)
- EY 21/22 Report of those charged with governance (ISA 260) – (March 23)
- 21/22 Statement of Accounts Audited – (March 23)
- Training for ASC members including understanding the Council's financial reporting requirements (Aug 22), introduction to the knowledge and skills of the Audit Committee (Sept 22), reviewing the financial statement effectively (Dec 22) and Better Governance Forum (Jan 23).

System of Internal Control

15) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the Systems of Internal Control:

- Bi-annual update reports on the implementation of audit recommendations (contained within the no assurance and limited assurance opinion reports) – (June 22 and Jan 23)
- New Housing System and Project and update – (June 22 and Feb 23)
- Internal Audit Plan 22/23 – (June 22)
- Senior Finance Manager (Internal Audit) Annual Report – (Sept 22)
- Information Management Annual Report – (Jan 23)

16) 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 to ensure compliance with the relevant rules and legislation relating to their area of activity; 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.

17) All Internal Audit reports containing a no assurance, or limited assurance, high organisational impact opinion are submitted to Committee members in full. An auditable area receiving one of these opinions is considered by Internal Audit to be an area where the risk of the activity not achieving its objectives is high and sufficient controls were not present at the time of the review. Members can then forward any questions to the Senior Finance Manager, Internal Audit and responses are circulated to all. This process is used to ensure members are aware of any breaches of, or deficiencies in, internal control.

Governance Arrangements (and compliance with Laws and Regulations)

18) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the accuracy of the Governance Arrangements:

- Annual Governance Statement (AGS) 21/22 – (Sept 22)
- Senior Finance Manager (Internal Audit) Annual Report – (Sept 22)
- Code of Corporate Governance – (Jan 23)

19) The governance framework of the Council comprises the systems and processes, and cultures and values by which the Council is directed and controlled. The framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

20) 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.

21) 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. This process gives the Council and Audit and Standards Committee assurance that law and regulations are complied with.

22) The Senior Finance Manager for Internal Audit retains independent access rights to the Chief Executive of the Council, along with access rights to the Chair and other members of the Audit and Standards Committee.

Counter Fraud Arrangements

23) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the accuracy of the Counter Fraud Arrangements:

- Internal Audit Plan 22/23 included the counter fraud resource – (June 22)

- Report of reactive and pro-active fraud activity undertaken by Internal Audit in 21/22 – (July 22)
 - Whistleblowing Policy review – (March 23)
- 24) The primary responsibility for the prevention and detection of fraud rests with both SCC management and those charged with governance. It is important that management place a strong emphasis on fraud prevention, which may reduce the opportunities for fraud to take place; and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.
- 25) The Council's Anti-fraud and Corruption Policy Statement and Framework, clearly states that the Council has a zero tolerance to fraud, and that it expects its employees to uphold the highest ethical standards and to strictly adhere to its anti-fraud framework and associated policies.
- 26) As part of the Officers' Code of Conduct, the Policy Statement - Fraud and Corruption incorporates a message from the Chief Executive which clearly states the 'zero tolerance' approach of the authority. It incorporates the fact that any instances of fraud or corruption will be treated as gross misconduct.
- 27) 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).
- 28) The Council participates fully with the National Fraud Initiative (NFI) exercise, and no significant frauds were identified during the last exercise. Work on the current exercise is ongoing.
- 29) SCC has an extensive Whistleblowing Policy that contains an explanation on whistleblowing arrangements and the reporting access routes including the details of designated contact officers. The Human Resources Service maintains a central register of allegations. Whistleblowing allegations are all reviewed and where appropriate fully investigated by someone independent of the area.

Risk Management

- 30) The Council has a risk management framework in place. The Corporate Risk Manager attended the Audit and Standards Committee in June 2022 and January 2023 to present to members a report on the current risk management reporting arrangements within the Council. The report included the risk trend analysis as well as the current and emerging risks to delivery of the Council's strategic objectives and the controls in place to manage those risks. Audit and Standards Committee members were given the opportunity to question any issues raised.

- 31) To help embed robust risk management reports to members should include the key risks that relate to the subject area, and these should be scrutinised. 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

- 32) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the Standards issues:
- Government response to the Committee on Standards in the Public Life – (June 22)
 - Interim Standards Complaints report – (Sept 22)
 - Annual Corporate Complaints report – (Nov 22)
 - Annual Ombudsman Report – (Nov 22)
 - Report of the review of the Members Code of Conduct and Complaints Procedure – (Feb 23)
 - Findings of the recommendations of the Annual Complaints and Ombudsman Report – (Feb 23)
 - Annual Standards Report – (Feb 23)

Requested actions

- 33) Members are asked to confirm that this report gives an accurate reflection of the items they have received and considered throughout the year.
- 34) Members are also asked to confirm 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 International Auditing Standards.