

# **Audit Committee**

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**Thursday 31 January 2013 at 6.00 pm**

**To be held at the Town Hall, Pinstone Street, Sheffield, S1 2HH**

**The Press and Public are Welcome to Attend**

## **Membership**

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Councillors Ray Satur (Chair), Anders Hanson, Steve Jones, Martin Lawton, Joe Otten (Deputy Chair) and Sioned-Mair Richards.

## **Independent Co-opted Members**

Mrs Beryl Seaman and Mr Rick Plews.

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## **PUBLIC ACCESS TO THE MEETING**

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The Audit Committee is a key part of the Council's corporate governance arrangements. The Committee has delegated powers to approve the Council's Statement of Accounts in accordance with the Accounts and Audit Regulations 2003 and consider the Annual Letter from the Auditor in accordance with the Accounts and Audit Regulations 2003 and to monitor the Council's response to individual issues of concern identified.

A copy of the agenda and reports is available on the Council's website at [www.sheffield.gov.uk](http://www.sheffield.gov.uk). You can also see the reports to be discussed at the meeting if you call at the First Point Reception, Town Hall, Pinstone Street entrance. The Reception is open between 9.00 am and 5.00 pm, Monday to Thursday and between 9.00 am and 4.45 pm. on Friday, or you can ring on telephone no. 2734552. You may not be allowed to see some reports because they contain confidential information. These items are usually marked \* on the agenda.

If you require any further information please contact Dave Ross on 0114 273 5033 or email [dave.ross@sheffield.gov.uk](mailto:dave.ross@sheffield.gov.uk).

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## **FACILITIES**

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There are public toilets available, with wheelchair access, on the ground floor of the Town Hall. Induction loop facilities are available in meeting rooms.

Access for people with mobility difficulties can be obtained through the ramp on the side to the main Town Hall entrance.

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**AUDIT COMMITTEE AGENDA  
31 JANUARY 2013**

**Order of Business**

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- 1. Welcome and Housekeeping Arrangements**
- 2. Apologies for Absence**
- 3. Exclusion of Public and Press**  
To identify items where resolutions may be moved to exclude the press and public.  
  
(Note: The report at item 11 (Marketing Sheffield) is not available to the public and press because it contains exempt information described in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended).
- 4. Declarations of Interest**  
Members to declare any interests they have in the business to be considered at the meeting.
- 5. Minutes of Previous Meeting**  
To approve the minutes of the meeting of the Committee held on 13 December 2012.
- 6. Progress on ICT Audit**  
Report of the Executive Director, Resources.
- 7. External Audit Plan 2012/13**  
Report of John Prentice, Director, KPMG.  
  
(Information from the Audit Commission on a Proposed Work Programme and Scale of Fees 2013/14 is attached to the report)
- 8. Delivering Internal Audit Activity**  
The Chief Internal Auditor to report.
- 9. Progress on High Opinion Audit Reports**  
Report of the Chief Internal Auditor.
- 10. Annual Governance Statement 2011/12 - Progress Report**  
Report of the Director of Modern Governance.
- 11. Marketing Sheffield Progress Report**  
Report of the Executive Director, Place.

(Note: The above report is not available to the public and press because it contain exempt information described in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended)

**12. Work Programme**

Report of the Director of Modern Governance.

**13. Date of Next Meeting**

The meeting of the Audit Committee will be held on 17 April 2013 at 6.00 p.m.

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## ADVICE TO MEMBERS ON DECLARING INTERESTS AT MEETINGS

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New standards arrangements were introduced by the Localism Act 2011. The new regime made changes to the way that members' interests are registered and declared.

If you are present at a meeting of the Council, of its executive or any committee of the executive, or of any committee, sub-committee, joint committee, or joint sub-committee of the authority, and you have a **Disclosable Pecuniary Interest** (DPI) relating to any business that will be considered at the meeting, you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your Disclosable Pecuniary Interest during the meeting, participate further in any discussion of the business, or
- participate in any vote or further vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

You **must**:

- leave the room (in accordance with the Members' Code of Conduct)
- make a verbal declaration of the existence and nature of any DPI at any meeting at which you are present at which an item of business which affects or relates to the subject matter of that interest is under consideration, at or before the consideration of the item of business or as soon as the interest becomes apparent.
- declare it to the meeting and notify the Council's Monitoring Officer within 28 days, if the DPI is not already registered.

If you have any of the following pecuniary interests, they are your **disclosable pecuniary interests** under the new national rules. You have a pecuniary interest if you, or your spouse or civil partner, have a pecuniary interest.

- Any employment, office, trade, profession or vocation carried on for profit or gain, which you, or your spouse or civil partner, undertakes.
- Any payment or provision of any other financial benefit (other than from your council or authority) made or provided within the relevant period\* in respect of any expenses incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

\*The relevant period is the 12 months ending on the day when you tell the Monitoring Officer about your disclosable pecuniary interests.

- Any contract which is made between you, or your spouse or your civil partner (or a body in which you, or your spouse or your civil partner, has a beneficial interest) and your council or authority -
  - under which goods or services are to be provided or works are to be executed; and
  - which has not been fully discharged.
- Any beneficial interest in land which you, or your spouse or your civil partner, have and which is within the area of your council or authority.
- Any licence (alone or jointly with others) which you, or your spouse or your civil partner, holds to occupy land in the area of your council or authority for a month or longer.
- Any tenancy where (to your knowledge) -
  - the landlord is your council or authority; and
  - the tenant is a body in which you, or your spouse or your civil partner, has a beneficial interest.
- Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -
  - (a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and
  - (b) either
    - the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or
    - if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

Under the Council's Code of Conduct, members must act in accordance with the Seven Principles of Public Life (selflessness; integrity; objectivity; accountability; openness; honesty; and leadership), including the principle of honesty, which says that 'holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest'.

If you attend a meeting at which any item of business is to be considered and you are aware that you have a **personal interest** in the matter which does not amount to a DPI, you must make verbal declaration of the existence and nature of that interest at or before the consideration of the item of business or as soon as the interest becomes apparent. You should leave the room if your continued presence is incompatible with the 7 Principles of Public Life.

You have a personal interest where –

- a decision in relation to that business might reasonably be regarded as affecting the well-being or financial standing (including interests in land and easements over land) of you or a member of your family or a person or an organisation with whom you have a close association to a greater extent than it would affect the majority of the Council Tax payers, ratepayers or inhabitants of the ward or electoral area for which you have been elected or otherwise of the Authority's administrative area, or
- it relates to or is likely to affect any of the interests that are defined as DPs but are in respect of a member of your family (other than a partner) or a person with whom you have a close association.

Guidance on declarations of interest, incorporating regulations published by the Government in relation to Disclosable Pecuniary Interests, has been circulated to you previously, and has been published on the Council's website as a downloadable document at [-http://councillors.sheffield.gov.uk/councillors/register-of-councillors-interests](http://councillors.sheffield.gov.uk/councillors/register-of-councillors-interests)

You should identify any potential interest you may have relating to business to be considered at the meeting. This will help you and anyone that you ask for advice to fully consider all the circumstances before deciding what action you should take.

In certain circumstances the Council may grant a **dispensation** to permit a Member to take part in the business of the Authority even if the member has a Disclosable Pecuniary Interest relating to that business.

To obtain a dispensation, you must write to the Monitoring Officer at least 48 hours before the meeting in question, explaining why a dispensation is sought and desirable, and specifying the period of time for which it is sought. The Monitoring Officer may consult with the Independent Person or the Council's Standards Committee in relation to a request for dispensation.

Further advice can be obtained from Lynne Bird, Director of Legal Services on 0114 2734018 or email [lynne.bird@sheffield.gov.uk](mailto:lynne.bird@sheffield.gov.uk)

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Audit Committee

Meeting held 13 December 2012

**PRESENT:** Councillors Anders Hanson, Joe Otten (Deputy Chair) and Sioned-Mair Richards.

Co-opted Independent Members  
Beryl Seaman and Rick Plews.

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**1. APOLOGIES FOR ABSENCE**

1.1 Apologies for absence were received from Councillors Steve Jones, Martin Lawton and Ray Satur.

**2. DECLARATIONS OF INTEREST**

2.1 Rick Plews declared a personal interest in item 11 (Financial/Commercial Monitoring of External Relationships) as a Trustee/Director of the Seven Hills Leisure Trust.

**3. MINUTES OF PREVIOUS MEETING**

3.1 The minutes of the meeting of the Committee held on 26 September 2012 were approved as a correct record.

Matters Arising

3.2 The Committee received an update from Jason Slatcher, Partnership Director, Capita, on the outstanding South Yorkshire pension queries. He indicated that there were 2200 outstanding cases, outlined the measures being undertaken to address the backlog and that it was intended that this work would be completed during January 2013.

3.3 **Resolved** that the Director of HR be requested to provide a verbal update on the outstanding South Yorkshire pension queries to the next meeting of the Committee.

**4. ANNUAL AUDIT LETTER 2011/12**

4.1 John Prentice (Director, KPMG) submitted the Annual Audit Letter for 2011/12 that summarised his audit of the City Council.

4.2 **Resolved** that Annual Audit Letter for 2011/12 be noted.

**5. AUDIT ARRANGEMENTS 2012/13**

5.1 John Prentice (Director, KPMG) submitted a letter that had been sent to the Chief

Executive on the arrangements for the Council audit for 2012/13, including details of the Audit personnel, indicative audit fee and billing arrangements.

5.2 **Resolved** that the audit arrangements for 2012/13 be noted.

## **6. CERTIFICATION OF GRANTS AND RETURNS ANNUAL REPORT 2011/12**

6.1 John Prentice (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.

6.2 **Resolved** that the report be noted.

## **7. IT RISK ASSESSMENT - PROGRESS REPORT**

7.1 John Prentice (Director, KPMG) submitted a report giving details of progress in implementing agreed recommendations from previous Audit Commission IT risk assessments of the Council's IT systems.

7.2 **Resolved** that:

(a) the report be noted; and

(b) the Executive Director, Resources be requested to submit a further progress report, including an action plan, on the recommendations from the Audit Commission's IT Risk Assessment to the next meeting of the Committee.

## **8. DELIVERING INTERNAL AUDIT ACTIVITY**

8.1 The Chief Internal Auditor submitted a report giving details of progress made against the 'new' auditable areas introduced for the 2012/13 audit plan. The report indicated that there were no issues or concerns to report to the Committee and the audits were progressing well, with management input and co-operation.

8.2 **Resolved** that the report be noted.

## **9. AUDIT COMMITTEE ANNUAL REPORT 2011/12**

9.1 The Director of Modern Governance submitted the Committee's draft Annual Report that highlighted the work of the Committee and how it had contributed to monitoring and improving the Council's corporate governance arrangements and internal controls.

9.2 **Resolved** that the Audit Committee's Annual Report for 2011/12 be approved for submission to the Council Meeting on 23 January 2013.

**10. EXCLUSION OF PUBLIC AND PRESS**

10.1 **Resolved** that the public and press be excluded from the meeting before discussion takes place on item 11 (Financial/Commercial Monitoring of External Relationships) and item 12b (Marketing Sheffield) 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.

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

11.1 The Director of Finance introduced a report of the Executive Director, Resources providing an update on the financial and commercial monitoring of the Council's major external relationships and referred to the positive movements since the report to the Committee on 1 August 2012.

11.2 The Executive Director, Resources and Director of Finance responded to questions from Members of the Committee relating to Digital Region Limited, the relationship with Amey, the Pensions Authority and Burngreave New Deal for Communities.

11.3 **Resolved** that the report be noted.

**12. MARKETING SHEFFIELD**

12.1 The Committee considered (a) a report of the Executive Director, Place providing an update on the transition of Creative Sheffield into the Council, with particular reference to the newly created Marketing Sheffield function, and the Internal Audit reports on Creative Sheffield undertaken in 2010 and Marketing Sheffield in 2012 and (b) the 2012 Internal Audit report on Marketing Sheffield.

12.2 Brendan Moffett (Director, Marketing Sheffield) indicated that there had been a difficult transitional period. In respect of the 2012 Internal Audit report on Marketing Sheffield, 20 of the 26 recommendations had been actioned and the remainder would be actioned by the end of January 2013. The recommendations were being taken seriously.

12.3 **Resolved** that the Committee:

- (i) expresses its concerns at the contents of the Internal Audit report on Marketing Sheffield and that a number of the recommendations have not been implemented;
- (ii) requests the Executive Director, Place to submit a progress report on the 2012 Internal Audit report on Marketing Sheffield to the meetings of the Committee in late January, March and April 2013; and
- (iii) requests the Chief Internal Auditor to undertake a follow-up exercise on Marketing Sheffield and report on progress to the March or April meeting of

the Committee.

### **13. WORK PROGRAMME**

13.1 The Committee considered a report of the Director of Modern Governance setting out the Committee's proposed Work Programme until April 2013.

13.2 **Resolved** that the Committee's Work Programme now submitted be approved with (a) the report from the Chief Internal Auditor on the Audit Commission Report on Protecting the Protecting the Public Purse/Update on counter fraud initiatives being considered at the 17 April 2013 meeting and (b) the following additional items:

- Recommendations from the Audit Commission's IT Risk Assessment - progress report, including an action plan, from the Executive Director, Resources (January 2013);
- 2012 Internal Audit report on Marketing Sheffield - a progress report from the Executive Director, Place (January, March and April 2013);
- progress report from the Chief Internal Auditor on the follow-up exercise on Marketing Sheffield (March or April 2013).

### **14. DATE OF NEXT MEETING**

14.1 It was noted that (a) the next meeting of the Committee, due to be held on 23 January 2013, would be rearranged as a meeting of Full Council was to be held on that date and (b) an additional meeting of the Committee was being arranged for March 2013.



## Audit Committee Report

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**Report of:** Laraine Manley, Executive Director

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**Date:** 31 January 2013

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**Subject:** Progress Report on ICT Audit

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**Author of Report:** Paul Green, Director of Information Services

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**Summary:** This report is an updated position statement on the response by the Council's Business Information Solution (BIS) team to issues raised by external audits in their annual audit report of 2011-12 on the management of ICT User accounts. The central finding of the external auditors report highlighted the lack of clarity in policy terms and Council direction to the IT partner Capita IT Sheffield (CITS) on suspension and deletion of dormant User accounts and this has been the focus of activity by BIS and Capita IT Sheffield.

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**Recommendation:** The Director of Information Services continues to progress addressing the issues highlighted by the external auditor in line with the actions set out in this report.

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**Background Papers:** NONE

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**Category of Report:** OPEN

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**If Closed add – 'Not for publication because it contains exempt information under Paragraph... of Schedule 12A of the Local Government Act 1972 (as amended)'**

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## Statutory and Council Policy Checklist

<b>Financial Implications</b>
<b>NO</b> Cleared by:
<b>Legal Implications</b>
<b>NO</b> Cleared by:
<b>Equality of Opportunity Implications</b>
<b>NO</b> Cleared by:
<b>Tackling Health Inequalities Implications</b>
<b>NO</b>
<b>Human rights Implications</b>
<b>NO</b>
<b>Environmental and Sustainability implications</b>
<b>NO</b>
<b>Economic impact</b>
<b>NO</b>
<b>Community safety implications</b>
<b>NO</b>
<b>Human resources implications</b>
<b>NO</b>
<b>Property implications</b>
<b>NO</b>
<b>Area(s) affected</b>
<b>Relevant Cabinet Portfolio Leader</b>
<b>Relevant Scrutiny Committee if decision called in</b>
Not applicable
<b>Is the item a matter which is reserved for approval by the City Council?</b>
<b>NO</b>
<b>Press release</b>
<b>NO</b>

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## **Progress report in response to external audit of ICT procedures**

### **1.0 INTRODUCTION**

#### **ACTION PLAN**

Business Information Solutions (BIS) and Capita IT Sheffield (CITS) have developed a comprehensive action plan, integrated into BIS preparation work for the calculation and notification of chargeback to ICT users in 2013, with agreed actions to be implemented by all parties to address the issues raised in the external audit of ICT in 2011-12. The action plan addresses both the process issues that have led to the problems, and the need to establish an ICT user database capable of delivering a reliable baseline going forward that will be the definitive source of information on ICT users.

### **2.0 SUMMARY**

#### **ACTION PLAN HEADLINES**

##### **Delivered**

Change to the Council's Information Governance (IG) Policy (detailed below) and text changes to the supporting Intranet guidance:

The revised IG Policy now reads:

"The IT Partner will ensure that terminated or suspended computer user accounts are deleted one month after termination or suspension unless the City Council request, in the circumstances of a particular case, that an account is retained for such longer period as it prescribes..."

[This clause applies to email accounts and any computer storage space allocated to the individual affected user..."]

### **3.0 MAIN BODY OF THE REPORT**

#### **WORK IN PROGRESS**

In addition to the revision to Information Governance policy noted above, BIS and CITS are working to address other issues highlighted in the external audit report. A preliminary action to ensure clear and focused activity by BIS/CITS to is to assign the issues identified by the external audit to a specific category: Process change; Policy change & Review; (detailed below)

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## Process change

- ✚ To ensure User account information is shared between all parties
- ✚ To implement timely deletion of temporary User accounts, and any associated GCSX secure mailbox held under that User account
- ✚ To improve User account management by mandating form and tick list completion for starters, movers and leavers
- ✚ To notify account deletion through use of a mandatory checklist to be completed and returned to BIS Service Centre
- ✚ To check and x-check active User accounts with Capita HR payroll data
- ✚ To implement regular database monitoring, cleansing and reconciliation

## Policy change

- ✚ Implement a policy for a naming convention for non-SCC employees who have a justifiable business need for an ICT User account
- ✚ Implement a policy to assign generic mailbox ownership and set time limits for retention of a generic mailbox
- ✚ Implement a policy to specify how long data from deleted User accounts & Mailboxes is retained before being deleted

## Review

- ✚ Ownership of Intranet guidance on managing User accounts
- ✚ Ownership User account management
- ✚ Ownership of database integrity management

Once ownership is assigned, set time periods for future reviews by owner to; ensure ICT User account guidance remains up to date; effective management responsibility for starters, movers and leavers ICT User accounts; check the integrity of and links between all systems and data sources that provide and receive information related to ICT User accounts.



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## **INTERDEPENDENCIES & FUTURE MANAGEMENT**

This report deals specifically with addressing the issues highlighted in the external audit report. The Process change, Policy change, and Review task categories are not mutually exclusive and all inter-dependencies across the categories will be effectively documented and managed.

Going forward, the effective future management of policies, processes and reviews is essential to ensure issues of the type highlighted by the external audit do not, as far as possible, re-occur. To this end, representatives from BIS & Capita IT Sheffield (and from support teams in SCC & Capita) will have assigned responsibility for managing all policies, processes and reviews connected to ICT User accounts.

### **4.0 RECOMMENDATION**

The Director of Information Services continues to progress addressing the issues highlighted by the external auditor in line with the actions set out in this report.

## Appendix Table

### Issue ID, Ownership & Target completion date

ID	Issue & assigned Task Category [TC]	Owner(s)	Complete
Issue 1	<p><b>Issue:</b> Quality and relevance of Intranet guidance to managers on ICT User creation</p> <p><b>[TC] REVIEW</b></p>	Alex Waite [BIS]	31 Mar 2013
Issue 2	<p><b>Issue:</b> Accurate &amp; timely information on starters and movers is not being effectively passed between Capita HR and Capita ITS</p> <p><b>[TC] PROCESS</b></p> <p><b>Issue:</b> Temporary accounts not being deleted on creation of Active Directory User account</p> <p><b>[TC] PROCESS</b></p>	David Cunningham [CITS]	31 Jan 2013
Issue 3	<p><b>Issue:</b> Issues with management of ICT User accounts created for users not on SCC payroll</p> <p><b>[TC] REVIEW</b></p>	David Bownes [BIS]	31 Jan 2013
Issue 4	<p><b>Issue:</b> An ICT Users secure (GCSX) mailbox is not being deleted when they leave</p> <p><b>[TC] PROCESS</b></p>	David Cunningham	28 Feb 2013
Issue 5	<p><b>Issue:</b> No identification of the organisation ICT Users not on SCC payroll have come from</p> <p><b>Issue:</b> No agreed action to collect and record details of ICT Users not on SCC payroll</p> <p><b>[TC] PROCESS &amp; POLICY</b></p>	Alex Waite & David Cunningham	28 Feb 2013
Issue 6	<p><b>Issue:</b> No HR checklist for ICT Users not on SCC payroll that identifies when they leave, the contract closes or their project is complete</p> <p><b>[TC] REVIEW &amp; POLICY</b></p>	Alex Waite & David Cunningham	31 Jan 2013

## Appendix Table (continued)

### Issue ID, Ownership & Target completion date

ID	Issue & assigned Task Category [TC]	Owner(s)	Complete
Issue 7	<b>Issue:</b> Accurate information on SCC leavers and movers is not being passed between Capita HR & Capita IT Services leading to User accounts not being deleted  <b>[TC] PROCESS</b>	David Cunningham	31 Jan 2013
Issue 8	<b>Issue:</b> Failure to accurately x-check active User accounts against Capita HR payroll data  <b>[TC] POLICY &amp; PROCESS</b>	Alex Waite & David Cunningham	28 Feb 2013
Issue 9	<b>Issue:</b> Lack of clear meaning of data on 'last logon by User to a mailbox'  <b>[TC] REVIEW</b>	Alex Waite & David Cunningham	31 Jan 2013
Issue 10	<b>Issue:</b> Lack of defined period for retaining data after ICT User account is deleted  <b>[TC] POLICY &amp; REVIEW</b>	David Bownes	28 Feb 2013
Issue 11	<b>Issue:</b> Management of Generic Mailboxes  <b>[TC] POLICY AND PROCESS</b>	Alex Waite & David Cunningham	31 Mar 2013
Issue 12	<b>Issue:</b> Failure to suspend and delete mailboxes where no evidence of User access  <b>[TC] POLICY &amp; PROCSS</b>	Alex Waite & Laurence Green [BIS]	28 Feb 2013
Issue 13	<b>Issue:</b> Limited linkage between databases that impact ICT User accounts and mailboxes  <b>[TC] REVIEW</b>	Alex Waite & David Cunningham	31 Mar 2013
Issue 14	<b>Issue:</b> Lack of regular monitoring and reconciliation of databases that hold ICT User account information  <b>[TC] PROCESS</b>	Alex Waite & David Cunningham	30 April 2013

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## **AUDIT COMMITTEE REPORT - 31 JANUARY 2013**

### **EXTERNAL AUDIT PLAN 2012/13**

**Report of John Prentice, Director, KPMG.**

**(Information from the Audit Commission on a Proposed Work Programme and Scale of Fees 2013/14 is attached to the report)**

### **Recommendation**

**That the Committee notes the External Audit Plan 2012/13 and the information from the Audit Commission.**





*cutting through complexity™*

# External Audit Plan 2012/13



The contacts at KPMG in connection with this report are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, telephone (mimicom) 020 7630 0421.



This document describes how we will deliver our audit work for Sheffield City Council.

### Scope of this report

We are pleased to be appointed as your external auditors for 2012/13. This document describes how we will deliver our financial statements audit work for Sheffield City Council. It supplements our *Audit Fee Letter 2012/13* sent to you in August 2012.

We also set out our approach to value for money (VFM) work for 2012/13.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

### Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the *Audit Commission's Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

### Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We have identified a number of key risks that we will focus on during the audit of the 2012/13 financial statements.

These are described in more detail on pages 10, 11 and 12.

The remainder of this document provides information on our:

- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
<b>Savings plans</b>	The Authority currently estimates that it will need to deliver £50m in savings during 2013/14 to address further reductions to local authority funding and continued cost pressures.  The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.	In conjunction with our VFM work, we will critically assess the controls you have in place to ensure a sound financial standing and review how you are managing your savings plans.  We will also review the Authority's assessment of material liabilities and provisions in its 2012/13 financial statements.
<b>Highways PFI</b>	In August 2012 the £1.5billion Highways Private Finance Initiative (PFI) contract with Amey commenced. The scheme covers the refurbishment and maintenance of the Authority's roads, pavements, lighting and bridges, and the transfer of staff to the new provider.  PFI accounting schemes involve complex transactions, judgements and estimates and can cause significant changes to the accounts.	We will discuss and review the Authority's proposed accounting treatments in the affected areas.
<b>Digital Region Limited</b>	Digital Region Limited is a joint venture between the four South Yorkshire local authorities to provide broadband services across South Yorkshire. These local authorities have taken the decision to re-tender the associated contract.  Re-tendering has already involved providing for significant costs, and the process will not be concluded until early in 2013. Digital Region Limited also has significant liabilities, which the Authority and its partners would need to fund if re-tendering is unsuccessful.	We will review the Authority's value for money arrangements in managing the potential issues and consequences concerning Digital Region Limited .
<b>Property, plant and equipment</b>	The potential for impairment/valuation changes , particularly the accounting of schools transferring to Academy or Foundation status, makes this balance inherently risky due to the high level of judgement and estimation uncertainty.	We will gain an understanding of the main changes impacting on 2012/13 and review the accounting for those changes, particularly schools land and buildings.
<b>Pensions' costs and liabilities</b>	Pensions costs and liabilities require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. Reliance is often placed on the actuary with limited checking of the results of their work.	We will perform work required by auditing standards where an expert is used. Specific testing of pension calculations will be performed.

## Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2013:

- **Planning**  
(December 2012 and January 2013).
- **Control Evaluation**  
(February to April).
- **Substantive Procedures**  
(July and August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During December 2012 and January 2013 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in December 2012 and January 2013. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

**Business understanding and risk assessment**

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a bi-monthly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

**Organisational control environment**

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. Most of the organisational controls we assess were previously linked to the use of resources assessment. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we may test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

**Audit strategy and approach**

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

**Accounts audit protocol**

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

As your previous auditor we met with the Director of Finance to discuss mutual learning points from the 2011/12 audit. These points will be incorporated into our work plan for 2012/13. We will revisit progress against areas identified for development as the audit progresses.

**During February to April 2013 we will complete our interim audit work.**

**We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.**

**We work with your finance team to enhance the efficiency of the accounts audit.**

**We will present our *Interim Report* to the Audit Committee in June/July 2013.**

Our interim visit on site will be completed between February and April 2013. During this time we will complete work in the following areas:

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

#### **Review of internal audit**

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide feedback to Internal Audit at the end of our interim visit

#### **Accounts production process**

Your previous auditor raised a recommendation in his *Report to Those Charged with Governance (ISA 260 Report) 2011/12* relating to delays in the completion of a number of important accounting reconciliations during that year.

We will assess the Authority's progress in addressing that recommendation and in preparing for the closedown and accounts preparation.

#### **Critical accounting matters**

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Audit Committee meeting in June/July 2013.

#### **Controls over key financial systems**

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work Internal Audit has completed, to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on that work. We have a joint working protocol and have met with Internal Audit to discuss the principles and timetables for the managed audit process for 2012/13.



## Our audit approach – substantive procedures

**During July and August 2013 we will be on site for our substantive work.**

**We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.**

**We also review the Annual Governance Statement for consistency with our understanding.**

**We will present our ISA 260 Report to the Audit Committee in September 2013.**

Our final accounts visit on site has been provisionally scheduled for the period July to August. During this time, we will complete the following work:

**Substantive Procedures**

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences (unless trivial) to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

### Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to Audit Committee in September 2013.

### Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

### Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings on the Authority's actions to address the key risk areas with the Director of Finance, prior to reporting to the Audit Committee in September 2013.

### Audit adjustments

During our on site work, we will meet with the Finance Manager (Financial Planning and Accounting) on a weekly basis to discuss the progress of the audit; any differences found and any other issues emerging.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack. We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

#### **Whole of government accounts (WGA)**

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

#### **Electors challenge**

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

#### **Reporting and communication**

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 18.

#### **Use of off-shore audit resources**

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

**Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.**

**Independence and objectivity confirmation**

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

**Confirmation statement**

We confirm that as of 21 January 2013 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
<p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Reserves and balances</li> <li>■ Provisions</li> </ul>	<p><b>Risk</b></p> <p>As at November 2012, the Authority is forecasting that it will deliver its 2012/13 budget in overall terms. This includes a savings programme totalling £55 million. The Authority currently estimates that another £50m in savings will need to be achieved during 2013/14 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>If there are any related liabilities at year end, these will need to be accounted for in the 2012/13 financial statements as appropriate</p> <p><b>Our audit work</b></p> <p>In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p> <p>As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans against the Code. If applicable, we will review the Authority's provisions, including the methodology, assumptions and calculations.</p>

## Key financial statements audit risks (continued)



For each key risk area we have outlined the impact on our audit plan. We will provide an update on how the Authority is managing these risks in our Interim Report.

Key audit risks	Impact on audit
	<p><b>Risk</b></p> <p>The Authority has started a £1.5billion Highways Private Finance Initiative (PFI) contract with Amey. The scheme covers the refurbishment and maintenance of the Authority's roads, pavements, lighting and bridges, and has involved the transfer of Streetforce staff to the provider.</p> <p>PFI accounting schemes involve complex transactions, judgements and estimates and will involve significant changes to the financial statements.</p> <p><b>Our audit work</b></p> <p>As part of our interim work we will review the processes the Authority has put in place to ensure PFI related transactions are properly identified, controlled and correctly captured. As part of our final accounts audit we will review the appropriateness of the accounting entries and disclosures in the accounts.</p>
	<p><b>Risk</b></p> <p>Digital Region Limited (DRL) is a joint venture between the four South Yorkshire local authorities to provide broadband services across South Yorkshire. These local authorities have taken the decision to providing for significant costs, and the process will not be concluded until early in 2013. DRL also has significant liabilities, which the Authority and its partners would need to fund if re-tendering is unsuccessful.</p> <p><b>Our audit work</b></p> <p>We will review the Authority's management of, and accounting for, the potential issues concerning DRL.</p>

## Key financial statements audit risks (continued)

For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our Interim Report.

Key audit risks	Impact on audit
<div style="text-align: center;">  <p><b>Property, plant and equipment</b></p> </div> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Asset and liability recognition and de-recognition</li> <li>■ Asset Valuation</li> <li>■ Accounts disclosure</li> </ul> </div>	<p><b>Risk</b></p> <p>The potential for impairment/valuation changes, particularly the accounting of schools transferring to Academy or Foundation status, makes this balance inherently risky due to the high level of judgement and estimation uncertainty. These changes in valuation are often very significant when considered in relation to Performance Materiality.</p> <p>Some elements can also involve complex accounting. This is usually a presentational issue rather than a capitalisation issue.</p> <p><b>Our audit work</b></p> <p>We will gain an understanding of the main changes impacting on 2012/13 and review the accounting for those changes, particularly schools' land and buildings.</p>
<div style="text-align: center;">  <p><b>Pensions' costs and liabilities</b></p> </div> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Long term liabilities</li> <li>■ Reserves</li> </ul> </div>	<p><b>Risk</b></p> <p>Pension costs and liabilities require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. Reliance is often placed on the actuary with limited checking of the results of their work. Accounting can also be complex.</p> <p><b>Our audit work</b></p> <p>We will perform work required by auditing standards where an expert is used. We will examine the assumptions used and test the calculations of the accounting entries arising from the actuarial output.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

**Background to approach to VFM work**

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.  
 The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing <b>financial resilience</b> .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul>
The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

**Overview of the VFM audit approach**

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
<b>VFM audit risk assessment</b>	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ information from the Audit Commission's financial ratios tool;</li> <li>■ evidence gained from previous audit work, including the response to that work; and</li> <li>■ the work of the Audit Commission, other inspectorates and review agencies.</li> </ul>

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
<p><b>Linkages with financial statements and other audit work</b></p>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<p><b>Assessment of residual audit risk</b></p>	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
<p><b>Identification of specific VFM audit work</b></p>	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and</li> <li>■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>



Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

VFM audit stage	Audit approach
<p>Delivery of local risk based work</p>	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our <i>Interim Audit Report</i> and our <i>Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

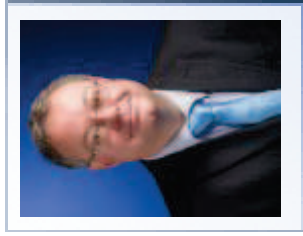
Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Sheffield City Council audit last year. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



John Prentice  
**Director**

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and Executive Directors.”



David Phillips  
**Senior Manager**

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with John Prentice to ensure we add value. I will liaise with the Director of Finance and Head of Internal Audit.”



Stuart Cutts  
**Assistant Manager**

“I will be responsible for the on-site delivery of our work. I will liaise with Finance and Internal Audit Managers. I will also supervise the work of our audit assistants.”



At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the

Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>Outline audit approach.</li> <li>Identify areas of audit focus and planned procedures.</li> </ul>	<b>January 2013</b>
<b>Control evaluation</b>		
<b>Interim Report</b>	<ul style="list-style-type: none"> <li>Details and resolution of control and process issues.</li> <li>Identify improvements required prior to the issue of the draft financial statements and the year-end audit.</li> </ul>	<b>June/July 2013</b>
<b>Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>Details the resolution of key audit issues.</li> <li>Communication of adjusted and unadjusted audit differences.</li> <li>Performance improvement recommendations identified during our audit.</li> <li>Commentary on the Authority's value for money arrangements.</li> </ul>	<b>September 2013</b>
<b>Completion</b>		
<b>Auditors' report</b>	<ul style="list-style-type: none"> <li>Providing an opinion on your accounts (including the Annual Governance Statement).</li> <li>Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>September 2013</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>November 2013</b>

We will be in continuous dialogue with you throughout the audit.

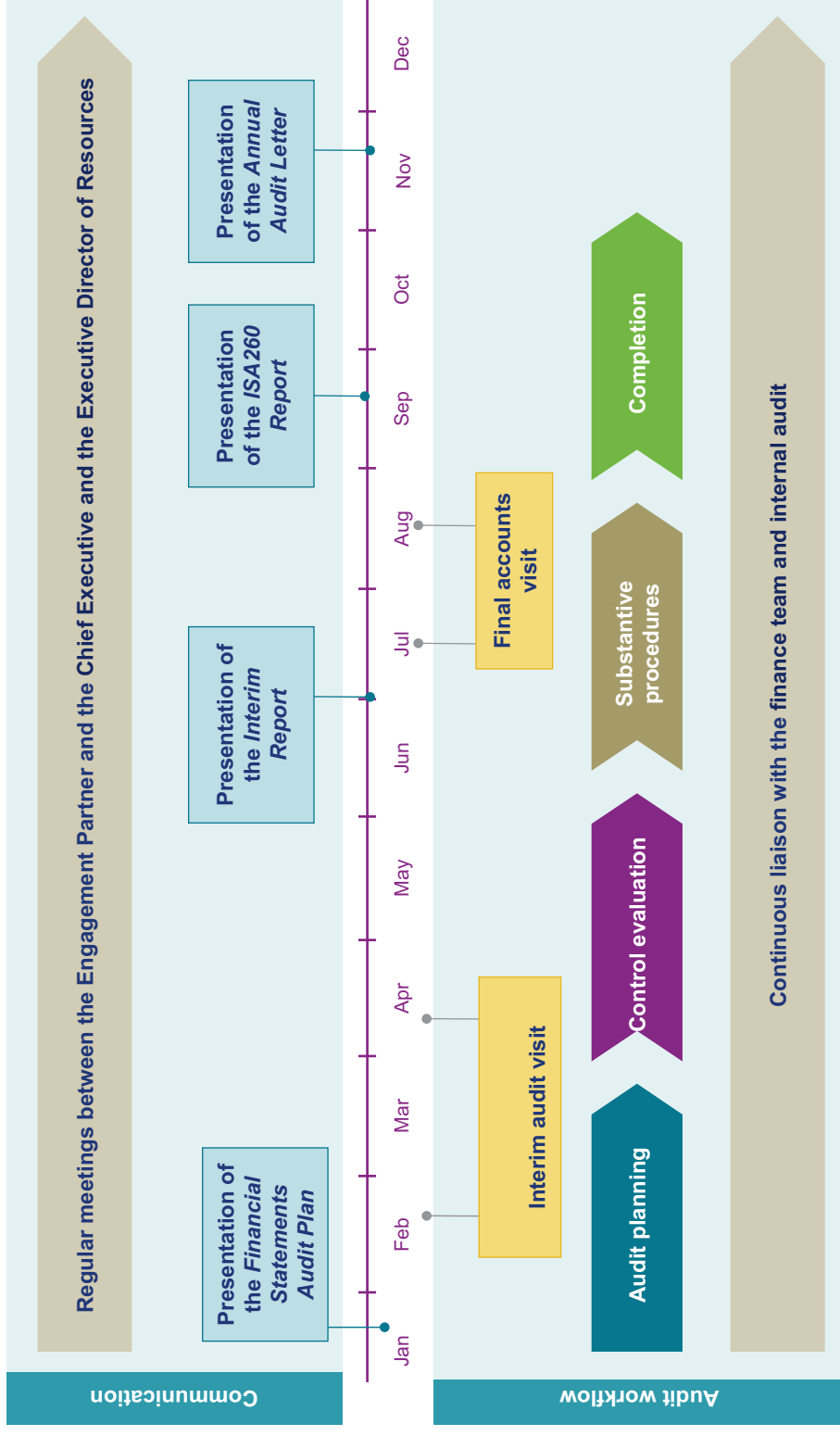
Key formal interactions with the Audit Committee are:

- January – Financial Statements Audit Plan;
- June – Interim Report;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during February and March.
- Final accounts audit during July and August.



Key: ● Audit Committee meetings.

The main fee for 2012/13 audit of the Authority is £247,860. The fee has not changed from that set out in our Audit Fee Letter 2012/13 issued in August 2012.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

### Audit fee

Our *Audit Fee Letter 2012/13* issued in August 2012 first set out our fees for the 2012/13 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2012/13 (planned)	2011/12 (actual)
Gross audit fee	£247,860	£413,100
Less: Audit Commission rebate	N/A	-£33,048
<b>Total</b>	<b>£247,860</b>	<b>£380,052</b>

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2012/13 is £247,860. This is a reduction of 40 percent compared to the 2011/12 gross fee.

### Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011/12;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2012/13* within your 2012/13 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;

- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority continues to achieve an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

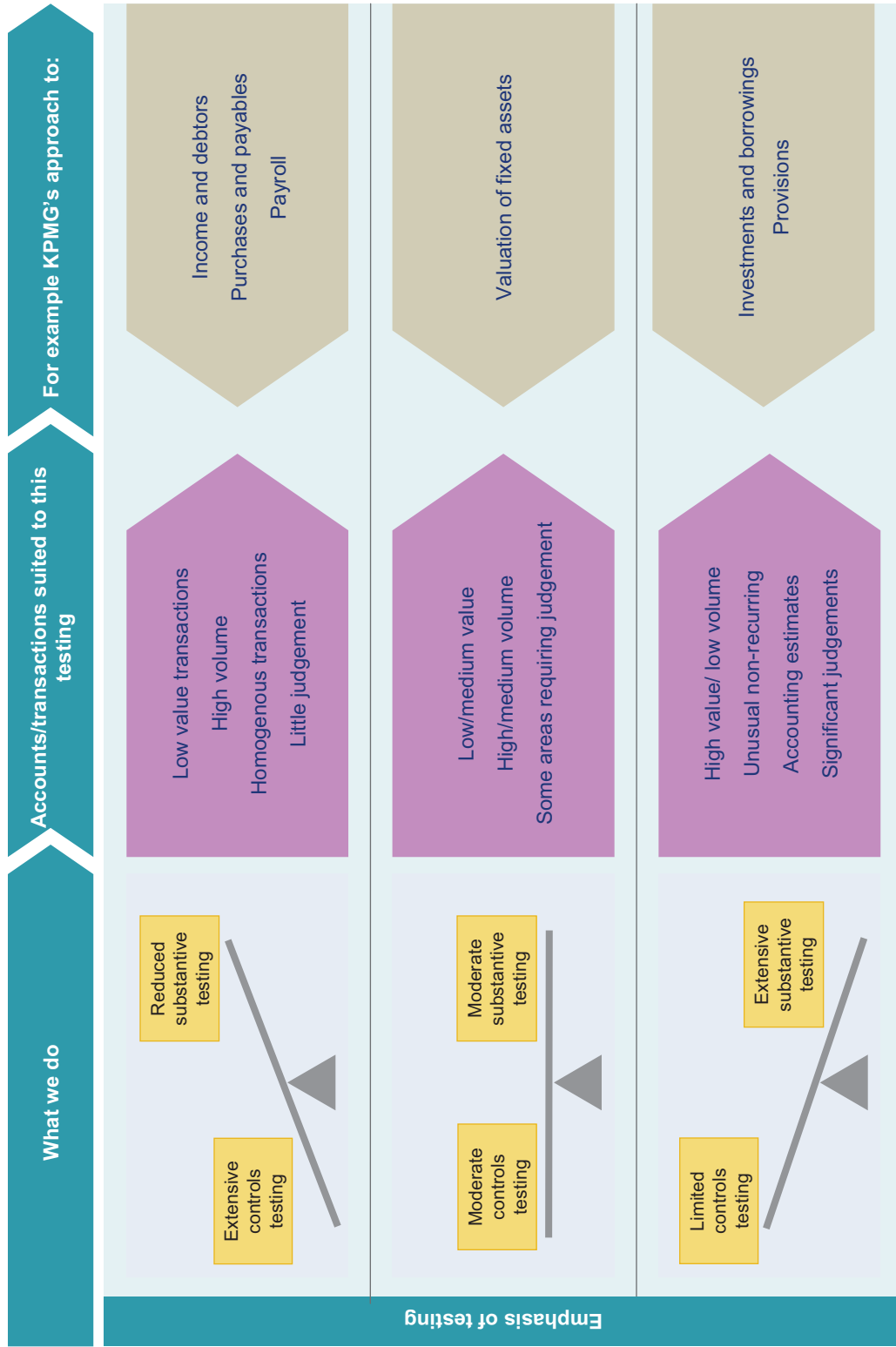
### Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.
- If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Finance.

# Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



## Appendix 2: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.



## Appendix 3: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG. We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. The Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of their time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.

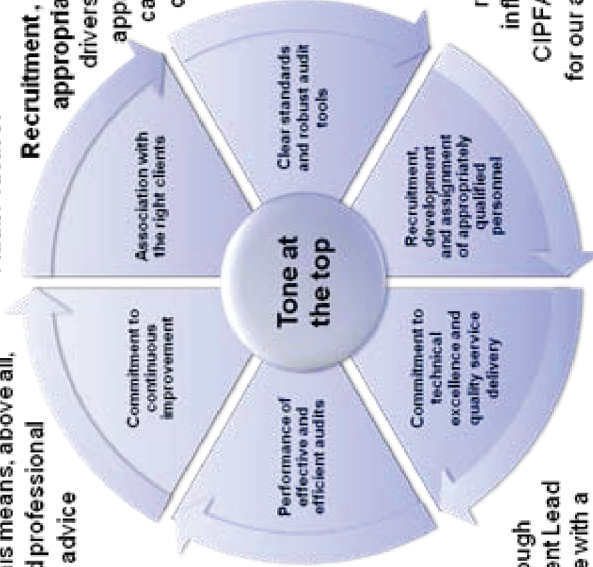
**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.



## Appendix 3: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. Quality must build on the foundations of well trained staff and a robust methodology.

**Commitment to technical excellence and quality service delivery:** Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes. I

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year ([http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess\\_copy.aspx](http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx)). The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.



*cutting through complexity™*

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# Proposed work programme and scales of fees 2013/14

Local government and police bodies

December 2012



**The Audit Commission's role is to protect the public purse.**

**We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.**

**We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.**

**We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.**

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# Introduction

1 This consultation document sets out the work the Audit Commission plans to undertake at local government and police audited bodies during 2013/14, with the associated [scales of audit fees](#). A separate consultation document covers the Commission's [work programme and scales of fees at NHS bodies](#).

2 The consultation does not cover small bodies subject to the limited assurance regime. Fee scales for small bodies were set in April 2012 for five years and are available on the [Commission's website](#).

3 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2013/14 work programme and scale fees, as well as supporting audited bodies' financial planning.

## Background

4 In March 2012, the Commission announced significant reductions of up to 40 per cent in audit and certification fees from 2012/13 onwards, following an exercise to outsource the work of its in-house audit practice. These fee reductions were achieved as a combined result of the Commission's bulk purchasing power and internal efficiency savings.

5 When we announced the reductions, we said that we expect these lower fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

6 We plan to publish the final work programme and scales of fees for 2013/14 in April 2013. We have a statutory duty to consult before prescribing a scale of fees, and consult audited bodies themselves, where possible, as well as their representative associations, relevant government departments and the accountancy profession.

## 2013/14 fees

7 We do not plan to make any changes to the work programme for local government audited bodies for 2013/14. We therefore propose that scale audit fees are set at the same level as the fees applicable for 2012/13.

8 Fees for police bodies for 2012/13 reflected the increase in audit work arising from the changes introduced by the Police Reform and Social Responsibility Act 2011, requiring auditors to undertake audits of two statutory bodies in a police area from 2012/13, rather than one.

9 The 2012/13 overall fee for each police area, covering the audit of the police and crime commissioner and the chief constable, included an element for auditors' work on financial reporting requirements for the

transition from police authorities. We intend to remove this element for 2013/14, reducing the fee for the police and crime commissioner by a further 7 per cent.

**10** We will keep the scales of fees for the new police bodies under review, to ensure they are consistent with auditors' local assessment of audit risks.

**11** The Commission may approve variations to published scale fees for individual audited bodies, to reflect changes in circumstances or audit risks. These variations will apply to the fees for 2013/14 where the matter leading to the variation is of an ongoing nature.

## **Fees beyond 2013/14**

**12** We have made a commitment to review scales of audit fees each year, with the expectation that the significant audit fee reductions introduced from 2012/13 will apply until 2016/17. We expect to consult each year on the work programme and scales of fees before confirming fees.

**13** The Commission has reduced significantly in size, but will continue to oversee the contracts with audit suppliers and make auditor appointments.

**14** Draft legislation published by the government in July 2012 proposes closing the Commission by April 2015. The Commission's contracts with audit suppliers run until 2016/17, with a possibility of extension for up to three years. The responsibility for overseeing these contracts is expected to pass to a residuary body from April 2015.

## **Responding to this consultation**

**15** We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to [workandfeesconsultation@audit-commission.gov.uk](mailto:workandfeesconsultation@audit-commission.gov.uk) or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 8 February 2013**:

Audit Commission  
1st Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ

# Proposed work programme for 2013/14

## Audit

**16** Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing the body, and the arrangements it has put in place to manage those risks.

**17** Under the *Code of Audit Practice* (the Code), the Commission may specify additional audit work which supplements the local risk-based approach to planning the audit. For 2013/14, the Commission will specify work on Whole of Government Accounts (WGA).

## National reports

**18** In 2013/14, the Commission will again publish a national report on the results of auditors' work. The report will cover the timeliness and quality of financial reporting and will summarise:

- auditors' work on the financial statements;
- auditors' work on the WGA returns;
- auditors' local value for money work;
- the public interest reports and statutory recommendations issued by auditors; and
- the key financial reporting and financial management challenges facing bodies.

**19** The report will cover local authorities, fire and rescue authorities, local police bodies, other local government bodies, internal drainage boards and parish councils.

**20** The Commission will also continue to publish the results of the annual survey of fraud in local government, in its *Protecting the Public Purse* report.

## Auditors' local value for money work

**21** Under the Audit Commission Act 1998, auditors must satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

**22** Auditors of single-tier, county and district councils, fire and rescue authorities and police bodies will apply a risk-based approach to their local value for money (VFM) work, giving a conclusion on the arrangements in place. The approach is based on two criteria, specified by the Commission:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**23** Auditors of larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives, joint committees, and other miscellaneous local government bodies will continue to apply a tailored approach to their local VFM work. The approach is based primarily on review of the annual governance statement, and any other specific work the auditor considers necessary.

**24** A VFM conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million, which are subject to limited assurance audit. This is in line with the threshold set in the Accounts and Audit (England) Regulations 2011 defining smaller relevant bodies.

**25** Where a body with annual income or expenditure of less than £6.5 million elects to prepare accounts as a larger relevant body, it is subject to a full Code audit including a VFM conclusion.

**26** Our website provides further [information about the VFM conclusion](#).

### **Certification work**

**27** As well as their work under the Code, appointed auditors, as agents of the Commission, certify certain claims and returns.

**28** In 2013/14, we will not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors will undertake only limited tests will remain at £500,000. Above this threshold, certification work takes account of the authority's overall control environment for preparing the claim or return.

### **Assessment and inspection work**

**29** Following the end of Comprehensive Area Assessment in May 2010, there is no longer any programme of mandatory inspection work. We do not envisage carrying out any inspections in 2013/14, unless specifically directed to do so.

# Proposed scales of fees for 2013/14

## Scales of audit fees for local government, police, and fire and rescue bodies

**30** We have reflected the cost of the work programme in the proposed scales of fees for 2013/14. The fees are based on the scale fees applicable for 2012/13.

**31** The proposed 2013/14 scale fee for each [local government](#) and [police](#) audited body is available on our website.

**32** The Commission has the power to determine the fee above or below the scale fee, where it considers that substantially more or less work was required than envisaged by the scale fee. The scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

**33** As the 2013/14 scale fees are based on the scale fee for 2012/13, they continue to reflect the auditor's assessment of audit risk and complexity. We would only expect variations from the scale fee to occur in 2013/14 where these factors are significantly different from those identified and reflected in the 2012/13 fee.

**34** The Commission can approve proposed variations to the scale fee, to reflect changes in circumstances, before or at the completion of the 2013/14 audit.

**35** We will keep the scales of fees for the new police bodies that have replaced police authorities under review to ensure they are consistent with auditors' local assessment of audit risks.

**36** The Commission will obtain updated fee information from appointed auditors, and explanations for any proposed variations from the scale fee on a regular basis. The Commission will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee.

**37** The Commission will charge fees for considering objections, from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

## Pension fund audits

**38** The proposed scale fees for 2013/14 pension fund audits are the scale fees applicable for 2012/13. In line with the scale audit fees for all audited



bodies, we expect these lower fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

**39** The proposed [2013/14 pension fund audit scale fee for each relevant audited body](#) is available on our website.

## **Certification work**

**40** The Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work.

**41** Certification work fees for 2013/14 will comprise a composite indicative fee for each body, based on the latest certification fees, for 2011/12. Indicative fees will be adjusted for schemes no longer requiring auditor certification.

**42** The Commission will receive final fee information from appointed auditors for 2011/12 certification work in January 2013. Where the work required to complete certification is above or below the indicative fee level set for 2012/13, we will revise 2013/14 indicative certification fees accordingly.

**43** As the 2013/14 composite indicative fee is based on the latest certification fees available, it reflects the auditors' assessment of the work required. Therefore, we expect variations from the composite indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the actual 2011/12 fee.

**44** The indicative fees for certification work are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

**45** The draft [2013/14 composite indicative certification fee](#) for each individual audited body is available on our website.

## **Inspection fees for local government bodies**

**46** We do not plan to undertake any inspections in 2013/14. Any risk-based inspections we are specifically directed to undertake will be charged on the basis of the fees set for 2010/11. This was the last year in which we undertook a planned programme of inspections. [The 2010/11 fees](#) are available on our website.

## **Value added tax**

**47** All the 2013/14 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

## Next steps

**48** Under section 7 of the Audit Commission Act, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, the Commission is required to consult relevant representative organisations.

**49** We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to [workandfeesconsultation@audit-commission.gov.uk](mailto:workandfeesconsultation@audit-commission.gov.uk) or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 8 February 2013**:

Audit Commission  
1st Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ

**50** Following responses to this consultation, the Commission's Board will approve the final 2013/14 work programme and scales of fees in March 2013, for publication in April 2013.

**51** If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk).



## Audit Committee Report

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<b>REPORT OF</b>	<b>Chief Internal Auditor</b>	<b>DATE</b> 31 <sup>st</sup> January 2013
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<b>SUBJECT</b>	<b>Progress on High Opinion Audit Reports</b>
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<b>SUMMARY</b>	<b>The attached is the report of the Chief Internal Auditor providing an updated position on Audit Reports issued with a high opinion.</b>
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<b>RECOMMENDATIONS</b>	<b>Sheffield City Council Audit Committee to note the contents of the Report</b>
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<b>FINANCIAL IMPLICATIONS CLEARED BY</b>	<b>No S Gill</b>	<b>PARAGRAPHS</b>
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**BACKGROUND PAPERS**

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<b>CONTACT POINT FOR ACCESS</b>	<b>Steve Gill</b>	<b>TEL NO.</b> 273 4363
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**CATEGORY OF  
REPORT**

Open

## Statutory and Council Policy Checklist

<b>Financial implications</b>
<del>YES</del> /NO      Cleared by: S Gill
<b>Legal implications</b>
<del>YES</del> /NO
<b>Equality of Opportunity implications</b>
<del>YES</del> /NO
<b>Tackling Health Inequalities implications</b>
<del>YES</del> /NO
<b>Human rights implications</b>
<del>YES</del> /NO
<b>Environmental and Sustainability implications</b>
<del>YES</del> /NO
<b>Economic impact</b>
<del>YES</del> /NO
<b>Community safety implications</b>
<del>YES</del> /NO
<b>Human resources implications</b>
<del>YES</del> /NO
<b>Property implications</b>
<del>YES</del> /NO
<b>Area(s) affected</b>
<b>Relevant Scrutiny Committee if decision called in</b>
Not applicable
<b>Is the item a matter which is reserved for approval by the City Council? <del>YES</del>/NO</b>
<b>Press release</b>
<del>YES</del> /NO

**REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE**  
**31st January 2013**

**Chief Internal Auditor's Report – Progress Against High Opinion Audit Reports.**

**Purpose of the Report**

1. The purpose of this 'rolling' report is to present and communicate to members of the Audit Committee progress made against recommendations in audit reports that have been given a high opinion.

**Introduction**

2. An auditable area receiving a 'High Opinion' is considered by Internal Audit to be an area where the risk of the activity not achieving objectives is high and sufficient controls were not present at the time of the review.
3. Appendix A provides a status update table, detailing the progress made against numbers of recommendations in each high opinion report.
4. Appendix B provides an update to the Audit Committee with regard to high opinion audit reports previously reported. Where Internal Audit has yet to undertake follow up work, the relevant Portfolio Directors were contacted and asked to provide Internal Audit with a response. This included indicating whether or not the recommendations agreed therein have been implemented to a satisfactory standard. Internal Audit clearly specified that as part of this response, Directors were to provide specific dates for implementation and that this was required by the Audit Committee.

**FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from the report.

**EQUAL OPPORTUNITIES IMPLICATIONS**

There are no equal opportunities implications arising from the report.

**RECOMMENDATION**

That the Audit Committee notes the content of the report.

**Steve Gill**  
**Chief Internal Auditor**

SHEFFIELD CITY COUNCIL  
 UPDATED POSITION ON HIGH OPINION AUDIT REPORTS AS AT 23 NOVEMBER 2012.

APPENDIX A

Audit Title	No of agreed recs	No. complete – from Directors update	No. complete – from IA follow up	Original completion date for all actions	Revised completion date for all actions
Carbon Reduction Commitment (Place)	11	*	7	31.03.12	31.03.13
Cash Handling Appointeeships (Communities)	12	*	6	30.12.12	31.03.13
Critical Incidents Planning (CYPF)	9	*	7	31.10.11	31.03.13
Youth Commissioning – Sheffield Futures (CYPF)	15	15	**	30.06.12	n/a
Performance Monitoring Process (DCex)	5	*	2	30.09.11	31.07.12
Risk Management (Place)	12	*	6	02.07.12	See narrative
Register Office (DCex)	29	17	**	12.08.13	31.08.13
Marketing Sheffield (Place)	25	14	**	31.01.13	31.01.13
Establishment Control (Resources)	4	3	**	30.09.12	31.01.13

**Key**

\* No update requested from Director as a follow up audit undertaken by Internal Audit.

\*\* Follow up audit is scheduled for future (13/14 plan) therefore updated position supplied by responsible Director.

SHEFFIELD CITY COUNCIL  
UPDATED POSITION ON HIGH OPINION AUDIT REPORTS AS AT 23 NOVEMBER 2012.

APPENDIX B

**1. Audit Report: Carbon Reduction Commitment (CRC) (Place).**

Issued to the Audit Committee March 2012.

**Updated position**

**Internal Audit:** No further update was requested from the responsible Director as follow up work was undertaken in September 2012. The follow up review found that 7 out of the 11 agreed recommendations had been actioned, with progress being made on the remaining 4 actions. A target date of 31.03.13 was in place for these 4.

**2. Audit Report: Cash Handling Appointeeships in Residential Homes (Communities).**

Issued to the Audit Committee Feb 2012.

**Updated position**

**Internal Audit:** No further update was requested from the responsible Director as follow up work was undertaken in September 2012. The follow up work concluded that from the original 12 recommendations, six had been completed and work was either planned or partially completed with a target date of March 2013 for all the remaining actions. Internal Audit have provided management with more detailed feedback to strengthen the Appointeeships Procedural Guidelines in place

### **3. Audit Report: Critical Incident Planning (CYPF).**

Please note: this high opinion report was issued prior to the revised reporting arrangements to the Audit Committee – hence not issued in full to the Committee. Therefore an overview paragraph has been included:  
The audit covered schools and other external locations in addition to all central CYPF service areas. The audit concentrated on the policy and associated procedures in place ensuring that incidents were appropriately identified and dealt with. 13 recommendations were made - 9 of which were agreed.

#### **Updated position**

**Internal Audit:** No further update was requested from the responsible Director as follow up work was undertaken in September 2012. From the information provided Internal Audit is satisfied that progress has been made against the 9 original recommendations made and agreed;

- 7 had been implemented and documentary evidence provided to support this;
- 2 had written management assurance of implementation provided. These actions were due to be undertaken/completed by the end of the financial year.

Additionally, follow-up testing has demonstrated that action has also been taken against the 4 recommendations that were not agreed at the time of the original report:

- 3 had been fully implemented;
- 1 had written management assurance provided of implementation.

### **4. Audit Report: Performance Monitoring Process (Deputy Chief Executives).**

Please note: this high opinion report was issued prior to the revised reporting arrangements to the Audit Committee – hence not issued in full to the Committee. Therefore an overview paragraph has been included:  
An audit was undertaken on the performance monitoring process which is in place to monitor the performance of the Council and report to a number of internal and external bodies. Five recommendations were made and subsequently agreed. The audit was given a high opinion due to the high priority given to all the recommendations. The report was issued to management and the Executive Director on 13/07/2011.

#### **Updated position**

**Internal Audit:** No further update was requested from the responsible Director as follow up work was undertaken in June 2012. The follow up work undertaken in June 2012 concluded that 2 out of the 5 agreed recommendations had been actioned; with the remaining actions to be completed by July 2012.



**5. Audit Report: Youth Commissioning – Sheffield Futures (CYPF).**  
Issued to the Audit Committee February 2012.

**Updated position**

**Internal Audit:** A follow up audit is to be undertaken in quarter 4 of the 2012/13 plan.

**Tony Tweedy, Director - Lifelong Learning, Skills and Communities, CYPF response:**

"The Actions recommended in the report have been implemented to a satisfactory standard. A specification for work in 2012-13 and an associated contract value were agreed prior to 1st April 2012, and a schedule of monitoring and reporting is in place. The service has agreed on a 6 monthly reporting schedule for 2012-13 (the auditor recommended a quarterly arrangements) because we currently have weekly management meetings with Sheffield Futures senior managers, weekly data monitoring arrangements and at least weekly access to budget data. We have formally ended the arrangements through which Council officers were directly supporting the Sheffield Futures Management team, as the immediate threat to the organisation (and associated reputational and financial risk to the Council) has been neutralised: the organisation has now recruited directly a Chief Executive and business manager through its own resources."

**6. Audit Report: Risk Management (Place).**

Issued to the Audit Committee May 2012.

**Updated position**

**Internal Audit:** No further update was requested from the responsible Director as follow up work was undertaken in October 2012.

The follow up audit work concluded that of the 12 recommendations agreed, 6 had been fully actioned across all service areas within Place. Of the remaining 6 actions:

- 5 had been implemented to service area level but it was acknowledged by the Director of Business Strategy & Regulation that work to further embed risk management procedures in a minority of services was on-going. He further confirmed that as such it was not appropriate to provide a firm end date for this.
- 1 action with regard to the review of project risk management arrangements remained outstanding as this was pending the development of corporate risk management arrangements.

Comments were provided by the Place Programme Manager acknowledging that there were areas of weakness where implementation was ongoing or needed to begin. These are produced below:

There will be further implementation of the Corporate Risk Management Framework in the lower management tiers where this has not already taken place, alongside implementation across all service areas of a robust Quality Assurance process around the identification, description and assessment of risks. There will be ongoing review of the management of risk actions and removal of risks as appropriate in a timely manner.

**7. Audit Report: Register Office (DCEX)**  
Issued to the Audit Committee September 2012.

<p><b>Updated position</b></p> <p><b>Internal Audit:</b> A follow up review is planned as part of the 2013/14 audit plan.</p>
<p><b>Lynne Bird, Director of Legal Services response:</b></p> <p>"Of the 29 recommendations made by Internal Audit that were agreed or partially agreed 17 have been completed.</p> <p>Eight of the 10 high risks have been completed the 2 that have not are as follows - payment of clergy, which will be virtually complete by the end of November 2012 and guidance on data protection, which will be completed by 31<sup>st</sup> March 2013.</p> <p>Of the 15 risks categorised as medium 8 have been completed. The 7 outstanding actions identified as medium will be prioritised between December 2012 and March 2013 with a view to completion by 31<sup>st</sup> March 2013. These include: drawing up the communications plan, under going training on fraud assessment, preparation of a fraud plan and fraud assessment, reviewing fees, reviewing stock control, and providing a key policy.</p> <p>Of the 4 low risks 1 has been completed. The remaining 3 recommendations identified as low, which include ensuring adequate version control and ownership of procedures, noting the date of incoming NCS applications on the form and filing in date order and providing fact sheets at key customer points will be progressed through the year and completed by August 2013".</p>

**8. Audit Report: Marketing Sheffield (Place).**  
Issued to the Audit Committee November 2012.

**Updated position**

**Internal Audit:** A follow up review is planned as part of the 2013/14 audit plan.

**Brendan Moffett, Director of Marketing Sheffield response:**

“Of the 25 agreed recommendations 13 have been implemented and 12 are in progress with the completion date of 31st January 2013.

Marketing Sheffield has already instigated a high number of the proposed actions with a general tightening of procedures. There is on-going dialogue between Marketing Sheffield and Commercial Services surrounding all pending and potential procurement in 2013/14 and beyond.

Changes to Job Descriptions have been integrated into the HR Director Review (Director – Marketing Sheffield) and all other Marketing Sheffield Job Descriptions are being amended in line with an MER process in which 2 roles will be deleted in January 2013.

Financial Monitoring, monthly forecasting of income and expenditure and an improved financial coding structure have all been implemented in conjunction with the Place Finance Team. This includes monthly monitoring of accruals and there has been an increased performance in this and monthly debt monitoring.

Business Planning is in line with Place Portfolio processes, and Marketing Sheffield is now fully integrated into Place Quarterly Performance Management. Some IT software integration issues remain, dialogue is on-going with BIS with regard to a viable solution”.

**9. Audit Report: Establishment Control (Resources).**  
Issued to the Audit Committee July 2012

**Updated position**

**Internal Audit:** A follow up review is planned as part of the 2013/14 audit plan.

**Julie Toner, Director of Human Resources response:**

"The following actions have been taken to ensure that the establishment information is correct and changes made in a timely manner, as required by the Audit report.

**System Issues** - The Council and Capita now have a programme of improvement in place to improve the HR system capability and fundamental to this is to ensure that the Council has accurate establishment information. A discrepancy report has been run which highlighted discrepancies between post to post and hierarchy. Where there are issues these are being addressed. In addition there have been a number of meetings between the Director of HR, Directors of Business Strategy and HR Business Partners to ensure that Portfolios update their hierarchies and cleanse inaccurate data. In November the biannual workforce census takes place; this will ensure that all individual data is checked and amended in the system.

**Ongoing Changes to Establishment** - Capita have amended the forms and processes which are used to change and update the establishment. The Managers' Guide to Establishment Control is updated and on the Intranet.

**KPIs** - The use of KPIs to measure establishment control has been investigated and it has been decided that this is not the best way to manage this issue. Org Plus will be rolled out to all managers in January 2013; this will enable HR Business Partners and managers to better understand, check and amend their establishment. Establishment information is reported in the quarterly HR report to both Executive Management Team and to Portfolio Leadership Teams.

**Risks & Issues Register** - The risks and issues log is regularly reviewed and is updated on a monthly basis as the HR/Capita Service Operations Board".



## SHEFFIELD CITY COUNCIL Audit Committee Report

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**Report of:** The Director of Modern Governance on behalf of the Chief Executive

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**Date:** 31<sup>st</sup> January 2013

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**Subject:** Report to the Audit Committee on Progress on the 2011/12 Annual Governance Statement.

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**Author of Report:** Alistair Griggs 2736606

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**Summary:** The purpose of the report is to update the Audit Committee on progress made in mitigating the control weaknesses in the specific areas identified in the 2011/12 Annual Governance Statement.

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**Recommendations:** The Audit Committee are asked to note the actions taken by Officers and progress made to date.

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**Background Papers:** The Annual Governance Statement 2011/12 presented to the Audit Committee in August 2012.

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**Category of Report:** OPEN

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## Statutory and Council Policy Checklist

<b>Financial Implications</b>
NO
<b>Legal Implications</b>
NO
<b>Equality of Opportunity Implications</b>
NO
<b>Tackling Health Inequalities Implications</b>
NO
<b>Human rights Implications</b>
NO
<b>Environmental and Sustainability implications</b>
NO
<b>Economic impact</b>
NO
<b>Community safety implications</b>
NO
<b>Human resources implications</b>
NO
<b>Property implications</b>
NO
<b>Area(s) affected</b>
NONE
<b>Relevant Cabinet Portfolio Leader</b>
Cllr Julie Dore (Leader)
<b>Relevant Scrutiny Committee if decision called in</b>
Not applicable
<b>Is the item a matter which is reserved for approval by the City Council?</b>
NO
<b>Press release</b>
NO

## **SHEFFIELD CITY COUNCIL**

### **MODERN GOVERNANCE**

#### **UPDATE ON ISSUES IN THE ANNUAL GOVERNANCE STATEMENT (AGS) FOR THE FINANCIAL YEAR 2011/12, AS AT THE END OF DECEMBER 2012**

##### **Introduction**

1. The Council produced and signed off the Annual Governance Statement in June 2012. A number of issues were raised in the AGS for which managers were asked to produce plans to ensure that they did not lead to significant breakdowns in control.
2. This report is to update the Members of the Audit Committee on progress that has taken place. The update covers the 6-month period up to the end of December 2012.
3. The report shows the control weaknesses and proposed officer actions as described in the original AGS, and the latest information provided by the relevant officer. It is expected that these issues will also be reported to senior officers and Members by other reporting mechanisms.

##### **Summary**

4. From the information given by the officers concerned it appears that adequate progress is being made in these areas. All these areas will also be reviewed again for possible inclusion in the 2012/2013 AGS, as that Statement is produced over the next six months.

##### **Work on the 2012/2013 AGS**

5. Responsibility for the production of the Annual Governance Statement has been with the Director of Modern Governance, Alistair Griggs, for two years. Contingency plans are in place as it is envisaged that a substantial section of Modern Governance will form part of a new Legal and Governance Service from April 2013, including staff responsible for the AGS. Preparatory work on the 2012/2013 AGS is well in hand, and checklists have been circulated to all Directors in order that they can involve their service in preparing detailed responses. To assist, the Director of Modern Governance will meet all the Portfolio Leadership Teams as in previous years to brief them on the procedure and answer any questions the Executive Directors and their Leadership Teams may have.

##### **Financial Implications**

6. There are no direct financial implications regarding this report.

### **Equal Opportunities Implications**

7. There are no direct equal opportunities implications regarding this report.

### **Environmental Sustainability Implications**

8. There are no direct environmental sustainability implications regarding this report.

### **Community Safety Implications**

9. There are no direct community safety implications regarding this report.

### **Human Rights Implications**

10. There are no direct human rights implications regarding this report.

### **Legal Implications**

11. There are no direct Legal implications regarding this report.

### **Recommendation.**

12. The Audit Committee are asked to note the actions taken by Officers and progress made to date.

**Alistair Griggs**  
**Director of Modern Governance**



**Issues raised in the 2011/12 Annual Governance statement, proposed officer action, and reports on progress.**

**Description of the Control Weaknesses**

**MuseumSheffield (Sheffield Galleries and Museums Trust)**

Control weaknesses relating to the Sheffield Galleries and Museums Trust have been highlighted in the Annual Governance Statement for the last two years. Concerns have primarily related to the adequacy of cash flow and the client function management of the Trust.

Last year we reported that the MuseumSheffield Board had recognised the need for more timely financial information. To this end they had recruited a new Head of Finance. This new post holder has accomplished much in the past year so that whilst this work is still ongoing on improving financial systems, there is now more confidence in the financial reporting both to the Board and between MuseumSheffield and the Council.

These changes have, however, occurred at the same time as MuseumSheffield undertook an unsuccessful bidding process for an Arts Council Major Award to replace the Renaissance Funding they had previously received. As a result there has been a significant reduction in external funding. This in turn has resulted in a downsizing of the organisation with the Chief Executive and the Director of Resources both standing aside in order to reduce management costs.

The reduction in funding has again highlighted the extent to which MuseumSheffield had used their external funding to finance their underlying level of expenditure.

**Proposed Officer Action (as per AGS)**

**MuseumSheffield (Sheffield Galleries and Museums Trust)**

In June 2012 further action is being taken by the Council to ensure the continued operations of a museums and galleries service for the people of Sheffield. This is only possible because both Culture and Environment, and Finance, are now more confident in the financial management of the organisation and believe that the future can be managed back into a stable position from which to rebuild.

In summary therefore:

- MuseumSheffield have appointed a new Head of Finance who in turn has reviewed and upgraded significantly the quality, accuracy and timeliness of the financial information supplied to the Board and the Council.
- At the conclusion of that governance review, new Service Level Agreements will be implemented aligning outcomes to the current Corporate Plan.

## Update on Progress

### **Information Provided by Dave Macpherson, Head of Business Development On behalf of Paul Billington, Director of Culture & Environment**

Since the last update there has been continued progress towards stabilisation of Museum Sheffield financial control.

There has been a consistency of reporting both in terms of its timeliness where reports are now regularly produced every month, and its content where figures are not varying with the resultant uncertainty that has existed in the past. The end result therefore is that subject to continuing monitoring by both Culture and Environment Officers and Officers from Corporate Finance, there is confidence in the financial function of Museum Sheffield going forward.

It needs to be recognised however that due to the budgetary position that the Council finds itself in and the impact this has on Museum Sheffield, there will in future years be an increasing dependency on commercial and alternative income streams. This last Christmas period has shown how volatile those income sources can be and therefore there will continue to be challenging times ahead for Museum Sheffield. To support them in this they have been awarded a grant from Arts Council England designed to help them develop a more sustainable model going forward.

Legal Services has advised that should negotiations go smoothly the proposed revised service agreement could be finalised by the end of March 2013.

## Description of the Control Weaknesses

### **HR Data Reliability Concerns**

Externally commissioned reviews of the HR System have found that whilst the system itself is sound, not all standard parts are fully used. Current operational processes may also not be in step with recommended business practices. A project has been commissioned to rectify this. Until the project's completion, there remains a significant risk that the Council is unable to manage its people, resources and associated budgets as effectively as it should, and that there may be errors in the operation of the payroll function. In addition, the reputational effect of poor quality data continues to impact on the wider HR Service and customer perceptions.

## Proposed Officer Action (as per AGS)

### **HR Data Reliability Concerns**

A project to rectify weaknesses in the HR System has been commissioned that forms part of the People Transformation Programme. This is governed by the Modern Efficient Council (MEC) Board. The Project has a clear Project Initiation Document and timescales, and reports to a sub-committee of MEC on a monthly basis.

## Update on Progress

### **Information provided by Sue Palfreyman, Head of Human Resources - Business Systems, Capability Development & Change** **On behalf of Julie Toner, Director of Human Resources**

#### **HR Data Reliability Concerns – Update as at December 2012**

The aim of the HR system review is to make this the single source of data for people information in the Council. A decision was made in August 2012 to undertake Business Process Re-engineering to ensure via an end-to-end review of all processes, including those outside of the system itself, that all were fit for purpose and optimised performance. This has meant a joint approach between Capita and Council representatives to fundamentally review key processes, in order to implement more effective and efficient ways of capturing, monitoring and reporting on people information.

The key areas reviewed are those which have the highest impact in the organisation, and a timeline for the roll-out of each revised process is now in place, commencing in January 2013.

These are:

- OrgPlus Enterprise (the tool to improve the look and feel of reports) – January 2013
- Individual Performance Review/Personal Development – February 2013
- Recruitment, starters, leavers and contract changes – February 2013
- Timesheets and expenses – March 2013

The new functionality and upgrade to the system will also bring improvements to accuracy and reports. These will be introduced once the basic process improvements outlined above have been implemented.

This programme of work continues to be governed under the People Transformation programme, but now has a specific sub-committee, chaired by the Executive Director of Resources.

## Description of the Control Weaknesses

### **Improving Compliance with Payment Card Industry Regulations**

These standards cover the processes used to handle payment card information (ie debit card or credit card transactions) whether they are manual or electronic or both. Manual processes are generally (but not exclusively) run by Council staff and electronic solutions are provided by or through CAPITA.

In July 2011 Internal Audit produced a helpful report on the Council's compliance with the standard. A good standard of compliance is a key target for the City Council as it helps provide reassurance both to people using payment cards with us and payment card providers.

Complete compliance with all the standards is extremely challenging. Whilst the Council and CAPITA have arrangements in place to comply with the basic standards, work is outstanding to

achieve higher standards of compliance.

#### Proposed Officer Action (as per AGS)

##### **Improving Compliance with Payment Card Industry Regulations**

Capita is working hard to place its payment card electronic solution – called AIM – in a more secure environment. This work is scheduled to be complete by October 2012 and it follows considerable planning, testing and implementation work. That work will move us to closer compliance with the Data Security Standard.

Work is also continuing to improve City Council processes which involve payment card information; a recent example being in Customer Services.

Both the Council and Capita have committed considerable resources to improving compliance in this area; these efforts will continue, where required.

#### Update on Progress

##### **Information provided by Oz Oscroft, Project Manager Income Collection and Management and David Bownes, Lead Information Management Officer On behalf of Eugene Walker, Director of Finance**

##### **Improving compliance with Payment Card Industry Regulations**

The position on the ICT system related part of this control weakness is that Capita have now delivered technical improvements to its payment card solutions. This substantial work has significantly improved our compliance with the Payment Card Industry Data Security Standard; it is expected that very comprehensive compliance will be achieved by the end of 2013.

There is no legal or other obligation on the City Council to progress beyond its current level of compliance with the Data Security Standard. There is also no intention of spending the considerable sums necessary to achieve 100% compliance with the standard; few organisations worldwide in fact achieve such a level of compliance. What we are seeking to do is achieve a higher standard of compliance than we reach at the moment; this approach is typical across payment card processors like ourselves.

The Council does need to convince those it deals with that it takes the Data Security Standard seriously. These stakeholders include the full range of our customers, the financial institutions we deal with and the payment card service providers. The technical solution we will shortly have fully in place will provide that reassurance.

In respect of operational processes (i.e. how staff take payments), we are making fundamental changes to the way income is collected, moving a number of our manual processes to ICT systems that are security standard compliant from April 2013.

With the assistance of SCC's Internal Audit and Information Security teams, the Paye.net project will seek to confirm operational compliance measures, document them and ensure all relevant staff see, acknowledge and implement them. This will include the production of guidance and training measures as part of implementation with no new staff being allowed to start accepting

payments before receiving the relevant training.

This work has reduced this compliance risk to a much more acceptable level. I don't now consider it requires AGS reporting other than as an update on the control weakness identified when the AGS was published, but now addressed.

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## Audit Committee Report

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**Report of:** Director of Modern Governance

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**Date:** 31 January 2013

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**Subject:** Work Programme

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**Author of Report:** Dave Ross

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### Summary:

The report provides details of a proposed draft work programme for the Committee for 2013 and Members are requested to identify any further issues for inclusion.

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### Recommendations:

That the Work Programme is approved.

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### Background Papers:

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**Category of Report:** OPEN

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## Statutory and Council Policy Checklist

<b>Financial Implications</b>
NO Cleared by:
<b>Legal Implications</b>
NO Cleared by:
<b>Equality of Opportunity Implications</b>
NO Cleared by:
<b>Tackling Health Inequalities Implications</b>
NO
<b>Human rights Implications</b>
NO:
<b>Environmental and Sustainability implications</b>
NO
<b>Economic impact</b>
NO
<b>Community safety implications</b>
NO
<b>Human resources implications</b>
NO
<b>Property implications</b>
NO
<b>Area(s) affected</b>
NONE
<b>Relevant Cabinet Portfolio Leader</b>
NOT APPLICABLE
<b>Relevant Scrutiny Committee if decision called in</b>
NOT APPLICABLE
<b>Is the item a matter which is reserved for approval by the City Council?</b>
NO
<b>Press release</b>
NO

**WORK PROGRAMME**

**1. Purpose of Report**

1.1 To consider a proposed work programme for the Committee for 2013.

**2. Work Programme**

2.1 It is intended that there will be at least four meetings of the Committee during the year. The work programme is based around the attached terms of reference and includes some items which are dealt with at certain times of the year to meet statutory deadlines, such as the Annual Governance Report and Statement of Accounts, and other items requested by the Committee.

2.2 A proposed work programme to May 2013 is outlined below. Members are asked to identify any further items for inclusion.

<b>Date</b>	<b>Item</b>	<b>Author</b>
17 April 2013	Corporate Risk Management	Kevin Foster (Director of Transformation Service)/Richard Garrad (Corporate Risk Manager)
17 April 2013	Audit Commission Report on Protecting the Protecting the Public Purse/Update on counter fraud initiatives	Steve Gill (Chief Internal Auditor)
17 April 2013	Internal Audit Plan 2013/14	Steve Gill (Chief Internal Auditor)
17 April 2013	International Auditing Standards – Compliance with Internal Control	Steve Gill (Chief Internal Auditor)
17 April 2013	Delivering Internal Audit Activity - Progress Report	Steve Gill (Chief Internal Auditor)
17 April 2013	Annual Audit Fee Letter 2013/14	John Prentice (Director, KPMG)
17 April 2013	Progress in implementing the External Auditor's recommendations arising from the Certification of the Council's Claims and Returns in 2010/11	Allan Rainford (Deputy Director of Finance)
17 April 2013	Progress report on recommendations from the External Auditor's Annual	Allan Rainford (Deputy Director of Finance)

	Governance Report	
17 April 2013	Marketing Sheffield Progress Report	Brendan Moffett (Director of Marketing Sheffield)/Simon Green (Executive Director, Place
17 April 2013	Marketing Sheffield - Update on Follow-up Work	Steve Gill (Chief Internal Auditor)

2.3 An additional meeting is being arranged for March but would only take place if there were sufficient items. It is intended to submit a draft work programme for 2013/2014 to the April meeting of the Committee.

3. **Recommendation**

3.1 That the Committee's Work Programme is approved.

**Director of Modern Governance**

## **Audit Committee Terms of Reference (Revised February 2012)**

- (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 and accept 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.