

Audit Committee

Wednesday 17 April 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

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.

PUBLIC ACCESS TO THE MEETING

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. 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.

FACILITIES

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.

**AUDIT COMMITTEE AGENDA
17 APRIL 2013**

Order of Business

- 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.
- 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 31 January 2013.
- 6. Audit Commission Report on Protecting the Public Purse/Update on Counter Fraud Initiatives**
A report of the Assistant Director of Finance, Business Partnering and Internal Audit
- 7. Internal Audit Plan 2013/14**
A report of the Assistant Director of Finance, Business Partnering and Internal Audit
- 8. Compliance with International Auditing Standards**
A report of the Assistant Director of Finance, Business Partnering and Internal Audit
- 9. Public Sector Internal Auditing Standards**
A report of the Assistant Director of Finance, Business Partnering and Internal Audit
- 10. Delivering Internal Audit Activity Progress Report**
A report of the Assistant Director of Finance, Business Partnering and Internal Audit
- 11. Annual Audit Fee Letter 2013/14**
Report of John Prentice, Director, KPMG.
- 12. Response to Audit Commission Reports**
Report of the Executive Director, Resources.

13. * Strategic Risk Management

Report of the Executive Director, Resources.

(Note: The above report 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)

14. * Marketing Sheffield - Update on Follow-up Work

Report of the Executive Director, Resources.

(Note: The above report 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)

15. Work Programme

Report of the Director of Legal Services.

16. Date of Next Meeting

The meeting of the Audit Committee will be held on a date to be arranged in July 2013.

ADVICE TO MEMBERS ON DECLARING INTERESTS AT MEETINGS

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

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Audit Committee

Meeting held 31 January 2013

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

Co-opted Independent Members
Beryl Seaman and Rick Plews.

Officers in attendance
John Mothersole (Chief Executive), Laraine Manley (Executive Director, Resources), Alistair Griggs (Director of Modern Governance), Eugene Walker (Director of Finance), Lynne Bird (Director of Legal Services), Steve Gill (Chief Internal Auditor), Laura Pattman (Assistant Director Finance, Business Partnering, Children Young People and Families) Helen Molteno and Linda Hunter (Finance Managers, Internal Audit), David Phillips (Senior Manager, KPMG), Simon Green (Executive Director, Place), Brendan Moffett (Director, Marketing Sheffield) and Dave Ross (Principal Committee Secretary).

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1. APOLOGIES FOR ABSENCE

1.1 There were no apologies for absence.

2. DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

3.1 The minutes of the meeting of the Committee held on 13 December 2012 were approved as a correct record.

Matters Arising

3.2 The Committee received and noted an update from Phil Burrell (Capita) and Peter White (Senior Consultant, Client Lead, Resources) on the outstanding pension queries that indicated that 1900 data records had been accepted by the South Yorkshire Pensions' Authority. 300 more complex records had required manual intervention and these had now been cleared and submitted to the Pensions' Authority. The result was that the backlog of pensions' queries had been cleared.

4. PROGRESS ON ICT AUDIT

4.1 The Director of Information Services introduced a report of the Executive Director, Resources providing an update on the response by the Council's Business Information Solution (BIS) team to issues raised by the External Auditor in their annual audit report of 2011/12 on the management of ICT User

accounts. The central finding of the External Auditor's report highlighted the lack of clarity in policy terms and Council direction to the IT partner, Capita IT Sheffield, on suspension and deletion of dormant User accounts and this had been the focus of activity by BIS and Capita IT Sheffield and had resulted in a comprehensive action plan. The Director indicated that all the actions set out in the Appendix to the report would be completed by 30 April 2013.

- 4.2 **Resolved:** That the Committee requests the Director of Information Services to (i) continue to progress the issues highlighted by the External Auditor in line with the actions set out in the report and (ii) circulate to members of the Committee (A) details of the actions that had been completed and (B) the period of grace a member of the Council has after losing their seat at a local election in terms of closing their email account/returning IT equipment etc.

5. EXTERNAL AUDIT PLAN 2012/13

- 5.1 David Phillips (Senior Manager, Public Sector Audit, KPMG) introduced the External Audit Plan 2012/13 that described how KPMG would deliver the audit of the financial statements for the Council and also set out the approach to value for money work for 2012/13. He outlined the key risks that they would focus on during the audit of the financial statements and these related to the Council's savings plans, Highways PFI, Digital Region Limited, property, plant and equipment and pensions' costs and liabilities. He also gave details of the audit approach and the audit fee.
- 5.2 The Chief Executive and the Senior Manager, KPMG responded to questions from members of the Committee relating to the procurement process for Digital Region, assets/borrowing, elector challenge and the use of off-shore audits.
- 5.3 **Resolved:** That the External Audit Plan 2012/13 be noted and the Director, KPMG and his Audit Team be thanked for producing the Plan.

6. DELIVERING INTERNAL AUDIT ACTIVITY

- 6.1 The Chief Internal Auditor reported on progress made against the new auditable areas introduced for the 2012/13 audit plan and indicated that the risk management audits would be going ahead in February/March 2013.
- 6.2 The Director of Finance reported on the impact of the budget reductions on the Finance and Audit Teams. He informed the Committee that Steve Gill, Chief Internal Auditor, would be taking early retirement in March 2013 and Laura Pattman, Assistant Director Finance (Business Partnering, Children Young People and Families (CYPF)), would include in her role, responsibility for Internal Audit from 28 March. A Finance Manager would be also be appointed as the Audit Lead. Details of the new Finance Management structure were circulated at the meeting.
- 6.3 Councillor Ray Satur, the Chair of the Committee, stated that it was with deep personal regret that he had to announce that Steve Gill was taking early retirement. He indicated that he had joined the authority in 1986 as a trainee

accountant and was appointed to the post of Chief Internal Auditor in 1998. Councillor Satur also stated that Steve Gill had been involved in establishing the Audit Committee. He thanked him for his work for the Council and offered him his best wishes for the future.

- 6.4 Councillor Steve Jones also thanked Steve Gill for all his work for the Council.
- 6.5 In reply, Steve Gill thanked members for their kind words and stated that it had been a pleasure working for the Committee. He also highlighted how the development of the Committee was an achievement for the Council.
- 6.6 The Chief Executive, the Executive Director, Resources, Director of Finance and Chief Internal Auditor responded to questions from members of the Committee relating to the new structure for Internal Audit, seeking an assurance that there would be adequate challenge from the Audit function and whether the new Audit structure was compliant with the Public Sector Internal Auditing Standards.
- 6.7 **Resolved:** That the Committee:-
- (a) notes the information now reported;
 - (b) places on record its thanks to Steve Gill, Chief Internal Auditor, for his contribution to the work of the Council and this Committee and offers him best its wishes for his retirement and the future;
 - (c) requests the Director of Finance to circulate a note to members of the Committee on how the Council will comply with the Public Sector Internal Auditing Standards, if the Standards are mandatory; and
 - (d) requests the Assistant Director Finance (Business Partnering CYPF and Internal Audit) to submit a report to the Committee in January 2014 reviewing the operation of the new Internal Audit structure.

7. PROGRESS ON HIGH OPINION AUDIT REPORTS

- 7.1 The Chief Internal Auditor submitted a report providing progress made against recommendations in audit reports given a high opinion. In particular he referred to the audit reports relating to Marketing Sheffield and the Register Office.
- 7.2 The Director of Legal Services indicated that, in relation to the Register Office audit report, 24 of the 29 recommendations had been actioned, there was a new management team in place and the service was in a stronger position going forward.
- 7.3 The Chief Internal Auditor, Director of Legal Services, Executive Director, Resources and the Director of Modern Governance responded to questions from members of the Committee relating to the audit reports on the Register Office and Performance Monitoring Process (Deputy Chief Executive's) and monitoring of the recommendations in audit reports.

7.4 **Resolved:** That this Committee:-

- (a) notes the contents of the report;
- (b) requests the Director of Performance and Communications to confirm that the outstanding actions on the Performance Monitoring Process (Deputy Chief Executive's) Audit Report had been completed; and
- (c) requests the Assistant Director Finance (Business Partnering CYPF and Internal Audit) to include an action tracker to monitor outstanding actions in future progress reports on High Opinion Audits.

8. **ANNUAL GOVERNANCE STATEMENT 2011/12 - PROGRESS REPORT**

8.1 The Director of Modern Governance submitted a report giving details of progress made in mitigating the control weaknesses in the specific areas identified in the 2011/12 Annual Governance Statement (AGS). He outlined the approach for preparation of the AGS and the arrangements for work on the 2012/13 AGS.

8.2 In response to a question from a member of the Committee, the Chair indicated that there was a commitment to the AGS being written in plain language.

8.3 **Resolved:** That the Committee:-

- (a) notes the contents of the report; and
- (b) requests that the Annual Governance Statement 2012/13 is considered at two meetings of the Committee.

9. **EXCLUSION OF PUBLIC AND PRESS**

9.1 **Resolved:** That the public and press be excluded from the meeting before discussion takes place on the following item of business to be considered on 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.

10. **MARKETING SHEFFIELD PROGRESS REPORT**

10.1 Further to the request at the meeting of the Committee on 13 December 2012, the Executive Director, Place submitted a report aiming to provide assurance that significant progress was being made in response to the 2012 Marketing Sheffield audit recommendations. The Executive Director outlined the progress that had been made and referred to the follow-up audit work being undertaken by Internal Audit.

10.2 **Resolved:** That the Committee:-

- (a) notes the contents of the report and the steps being taken to progress the

recommendations from the 2012 Marketing Sheffield Audit report; and

- (b) requests the Director, Marketing Sheffield to circulate to members of the Committee the Independent review of MADE 2012 by Sheffield Hallam University Business School.

11. WORK PROGRAMME

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

Resolved: That the Committee:-

- (a) approves the Work Programme with the inclusion of an item for 2013/14 on how the Council pursues value for money; and
- (b) requests the Director of Legal Services to provide members of the Committee with the details of the Council's approach to consultation that is available on the Intranet.

12. DATE OF NEXT MEETING

- 12.1 It was noted that meetings of the Committee had been arranged for Thursday 14 March, if required, and Wednesday 17 April 2013 at 6.00 p.m.

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REPORT OF Assistant Director Finance – Business Partnering and **DATE**
Internal Audit

17th April 2013

SUBJECT Protecting the Public Purse annual fraud report

SUMMARY The purpose of this report is to inform the Audit Committee of information and key recommendations contained in the Audit Commission's annual 'Protecting the Public Purse 2012' report and to provide an update on fraud investigation activity within the Council during 2011/12.

RECOMMENDATIONS

1. That the Audit Committee notes the content of this report.
2. That the Audit Committee notes the completed checklist for those responsible for governance (Appendix A)

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
48

BACKGROUND PAPERS

Protecting the Public Purse 2012 – Audit Commission

CONTACT POINT FOR ACCESS

Kayleigh Inman

TEL NO.

273 5608

**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

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

Sheffield City Council

Report to the Audit Committee – April 2013

Audit Commission Report - Protecting the Public Purse

Purpose of the Report

- 1 To inform the Audit Committee of information and key recommendations contained in the Audit Commission's 'Protecting the Public Purse 2012' report.
2. To provide the Audit Committee with a completed checklist for those responsible for governance. The checklist is extracted from the Protecting the Public Purse 2012 report.
3. To provide the Audit Committee with details of fraud activity reported to Internal Audit and investigated within the authority during financial year 2011/12.

Introduction

- 4 The Audit Commission has published its annual 'Protecting the Public Purse 2012 – 'Fighting fraud against Local Government' report which provides a summary of detected fraud and identifies key fraud risks affecting local government. The publication also provides recommendations of good practice in managing the risk of fraud for both central and local government.
- 5 This report summarises the key fraud risks contained in "Protecting the Public Purse" and incorporates the SCC perspective on these risk areas.
- 6 This report also includes details of SCC activities intended to address the key fraud risks as identified by a checklist contained in the appendices of the Protecting the Public Purse publication (checklist for those responsible for governance).

Key Risk Areas

- 7 The Audit Commission collected fraud data from 480 public sector organisations during 2011/12 to provide a comprehensive picture of detected fraud. The results of the survey map the extent and location of detected fraud and help to identify good practice.

8. The following table summarises the 2011/12 survey of detected fraud in local government.

Total Fraud	2011/12
Value	£179,000,000
Cases	124,000
Average value	£1,444
Housing/Council Tax Benefit	
Value	£117,000,000
Cases	54,000
Average value	£2,167
Council Tax Discounts	
Value	£21,000,000
Cases	61,000
Average value	£344
Other Frauds	
Value	£41,000,000
Cases	9,000
Average value	£4,556

9. The above figures do not include the value of detected housing tenancy fraud.
10. Types of fraud that are included in the “Other Fraud” category primarily consist of; procurement fraud, abuse of position, payroll pensions and expenses fraud, disabled parking concession fraud, false insurance claims and social care fraud.

Housing Tenancy Fraud

11. There are approximately 4 million social housing properties in England with an asset value of more than £180 billion. Over half the stock is managed by Housing Associations and the waiting list totals approximately 2 million families.
12. Housing tenancy fraud refers to the unlawful use of social housing and includes;
- Illegal sub-letting (against the conditions of the tenancy)
 - Provision of false information to obtain a tenancy
 - Wrongful assignment/succession of tenancy where no longer occupied by the original tenant
 - Abandonment, selling the key to a third party or failing to use the property as the principal home.
13. The value of housing tenancy fraud was placed at £900 million a year based on a previous estimate that 50,000 properties were subject to tenancy fraud and therefore not available to other tenants. This was calculated using the National Fraud Authority model which states that

the main direct cost comes from the need to place homeless families in temporary accommodation (£18,000 per family).

- 14 The extent and value of housing tenancy fraud has been subject to additional research and the Audit Commission currently estimates that the level of fraud in London is between 4 and 6 per cent of total properties. It is also estimated that outside of London the incidence of housing fraud equates to at least half of that figure and therefore affecting a total of approx. 98,000 homes in England. The above figures are based on a small sample of detection exercises conducted in London and should be considered as indicative rather than statistically significant.
- 15 The Audit Commission conducted a small study to examine some of the misconceptions about tenancy fraud including: -
 - **Tenancy fraudsters have to be rehoused** – in 87% of cases the social housing provider did not have to rehome the fraudster
 - **Court action is required to regain control of the property** – in 85% of the cases the keys were handed back without the necessity for court action
 - **Tenancy frauds last only a few months** – in 43% of cases properties were unlawfully occupied for over a year
 - **Tenancy frauds are unconnected with other frauds** – there is evidence of other types of fraud in 45% of detected tenancy fraud (commonly Housing Benefit fraud).
 - **Specialist fraud investigators are not needed to tackle tenancy fraud** – social housing providers had used specialist investigation staff in 88% of the detected tenancy fraud cases
 - The exercise also concluded that outside of London most tenancy fraud related to abandonment and non-occupation of the home as a primary residence.
- 16 During 2011/12 1,748 properties were recovered due to detected tenancy fraud. Of these 1,209 were recovered in the London area and 49 in the Yorkshire and Humberside area. It is felt that the disproportionate share of the detected tenancy fraud in the London area reflects the dedicated investigatory capacity and joint working with Housing Associations.
- 17 Good practice outside of London is cited in Wolverhampton and Stoke on Trent where properties have been recovered by co-operation between specialist fraud investigators and housing officers.
- 18 Recent initiatives to assist organisations in fighting housing tenancy fraud include creation of the Tenancy Fraud Forum, an independent group of housing providers committed to tackling housing fraud and the creation of criminal offences relating to unlawful sub-letting of secure and assured tenancies (Prevention of Social Housing Fraud Act 2013).

- 19 During 2011/12, 3 cases of housing sub-letting fraud that were identified during an unlawful sub-letting project were reported to SCC Internal Audit by Sheffield Homes. All 3 properties were recovered without the need for legal action.

Council Tax Fraud

- 20 The total amount raised from council tax in England in 2012/13 is in the region of £26 billion. The National Fraud Authority estimates that £131 million is lost to council tax fraud each year. The majority of the losses are stated as fraudulently claimed discounts and exemptions including single person discount and student exemption.
- 21 The Audit Commission survey indicates that an increasing number of council tax frauds are being detected and councils are generally addressing single person discount, student awards and empty property exemptions (in 2011/12 70% of metropolitan authorities, unitary councils and London boroughs detected council tax discount fraud).
- 22 Capita undertook an annual review of single person discount in the form of a data matching exercise conducted in association with Experian during 2010/11. This resulted in the cancellation of 327 discounts and generated £39, 537.
- 23 In 2011/12 Sheffield City Council did not report any cases of council tax single person discount or other discount/exemption fraud.
- 24 During 2012/13, SCC participated in the biennial National Fraud Initiative (NFI), single person discount exercise which matched council tax discount data to the electoral register. This was the first time that SCC has participated in the exercise as previous legal advice restricted the provision of data. Analysis and investigation of the NFI data matching reports resulted in the cancellation of discounts and a total of £156k potential additional revenue (subject to collection and any re-instatements).
- 25 Internal Audit conducts regular reviews of the Council Tax system to test the operation of internal controls and make recommendations where appropriate.

Personal Budgets (direct payment) fraud.

- 26 Personal budgets are intended to increase the independence and quality of life for people in receipt of social care and local authorities can apply personal budgets in a number of ways including direct payments. Direct payments may be administered by the social care client, an independent care provider, a friend or family member and the Council. A survey conducted by the Association of Directors of Adult

Social Services found that in 2011/12 national expenditure on personal budgets exceeded £2.597 billion.

- 27 The Audit Commission 2011/12 national survey found that the average value of incidents of social care fraud (including personal budgets) was £18,000 and total social care fraud amounted to £2.2m.
- 28 The risks associated with direct payments are summarised as:-
- A person falsely claiming that they need care – the risk is increased due to the transition from traditional care provision to access to direct payment funds;
 - Carers using the direct payments that they manage on behalf of care recipients for personal gain;
 - Failure to notify Councils that a care recipient has died and continue to receive direct payments;
 - Submitting duplicate applications in multiple councils.
- 29 During 2011/12 Sheffield Council did not report any cases of Social Services fraud, however, three instances of financial abuse of position were reported by the service area.
- 30 At the time of writing this report Internal Audit were in the process of finalising a counter fraud audit that examined the vulnerability of the direct payment system to acts of irregularity. In addition, along with a number of neighbouring local authorities SCC has agreed to participate in a national data matching pilot exercise which has been organised by the Audit Commission, NFI team. The exercise has been specified to identify any incidence of the risks listed in paragraph 28 above and the data matching reports are scheduled for release in late March.

Procurement fraud

- 31 The Audit Commission reported that there were 187 detected incidents of procurement fraud totalling £8.1m in local government during 2011/12 (an average of £43k per incident).
- 32 The Audit Commission cites a number of on-going risk areas relating to procurement and contracting, the key areas of external fraud being:
- Collusion between staff and bidders to award contracts and favourable terms
 - Collusion between bidders to agree that they will not bid competitively for a particular contract
 - Bidders purposely failing to tender in accordance with the contract and later submitting false claims for extra costs.
- 33 Following the award of a contract fraud can occur when contractors:
- Provide inferior goods and services
 - Override minimum statutory pay and health and safety conditions for financial gain

- Submit false invoices
- Inflate performance information to obtain greater payments than due.

34 During 2011/12 SCC recorded 1 incident of proven procurement fraud.

Housing and Council Tax Benefit fraud

35 National expenditure on Housing and Council Tax Benefit was £27 billion of which fraudulent claims totalled £117 million. This area of fraud has received the highest level of investigative resource and expertise and consequently represents the single largest amount of detected fraud in local government.

36 During 2011/12, 248 cases of Housing and Council Tax Benefit fraud were detected within SCC and of these 6 involved Council employees. The majority of Housing Benefit and Council Tax Benefit fraud is investigated by a specialist team of staff located in Capita. Internal Audit investigates any allegations involving Council employees and also co-ordinate the NFI data matching exercises.

37 The 248 cases of Housing and Council Tax Benefit fraud detected during the year resulted in the following sanctions: -

Cautions	91
Administrative Penalties	45
Prosecutions	112

38 With effect from April 2013 Council Tax Benefit will be abolished and the Council will be required to introduce a local scheme of Council Tax Support. Funding from Central Government for the local scheme will be approximately 90% of that received for the Council Tax Benefit awards. The new local scheme will continue to be means tested and vulnerable to the same risks of fraud that apply to the current scheme.

39 A further key change to the provision of welfare will be the introduction of Universal Credit that will be administered by the DWP with effect from October 2013. Under this scheme Housing Benefit will be abolished, phased out and replaced by a housing costs element within the Universal Credit calculation.

40 Central Government has also introduced proposals for a Single Fraud Investigation Service (SFIS) that will be a partnership between HMRC, the Department for Work and Pensions and Local Authority fraud investigation staff. Whilst Council fraud investigation staff will be expected to work within SFIS policies, priorities and procedures, in the short term they will remain employed by their local authority and located in their existing accommodation. A number of SFIS pilot exercises are being undertaken to test the various models for the design of a national rollout. Whilst SFIS officially commences from April

2013, for those sites not involved in pilot exercises SFIS policy and procedures will come into force in 2014/15. The investigation of Council Tax Support and Local Authority corporate fraud will not fall within the remit of SFIS and the Audit Commission advises that councils maintain the capability to investigate non-housing benefit related fraud, proportionate to the level of risk that they face.

Mandate Fraud

- 41 Mandate fraud occurs where fraudsters attempt to redirect payments intended for legitimate creditors such as large contractors. Whilst the number of detected incidents in local government remains low (10 organisations nationally) the value of an occurrence can be high. The National Anti-Fraud Network and the Police issue bulletins and alerts to raise awareness of this type of fraud. There were no detected incidents of mandate fraud reported in SCC during 2011/12.

Emerging Fraud Risks

- 42 The Audit Commission report identifies areas of emerging fraud risks affecting local authorities. In 2011/12 the following areas were noted: -
- **Business rates fraud** – false claims for mandatory/discretionary relief, failure to declare occupancy of a property, false use of insolvency and false applications for rate relief were cited as the main types of fraud identified. In addition, incidents of charitable status abuse to obtain rate relief have been reported.
 - **Right to buy fraud** – whilst nationally the number of right to buy applications has reduced over recent years, an increase in the right to buy maximum discount is expected to raise the number of applications. Right to buy fraud occurs where false documentation is used to support the application or where an unlawful occupant applies for a discount.
 - **Social Fund fraud** – currently managed by Jobcentre Plus however from April 2013 local councils will take over administration of Local Welfare Assistance.
 - **Fraud against schools** – the Audit Commission reports that schools have been victims of many types of internal and external fraud in recent years and advocates a review of whistleblowing arrangements and the application of fraud prevention and detection arrangements proportionate to risk.
 - **Grant fraud** – this type of fraud includes false applications and failure to use funds for the intended purpose. The National Fraud Authority estimates that this type of fraud costs local government £41m each year.

Annual Fraud Survey

- 43 During 2011/12 Capita and Internal Audit carried out Housing Benefit fraud investigations. Other investigations consisted of allegations investigated by Internal Audit and those that were notified to Internal Audit and investigated by management.
- 44 The investigations are categorised in the format of the annual Audit Commission fraud survey as follows:

Type of Fraud	No of investigations
Housing Benefit fraud	248
Housing fraud (Non benefit)	3
Right to Buy fraud	0
Council Tax fraud	0
National non-domestic rates	0
Procurement fraud	1
Fraudulent Insurance claims	0
Social Services fraud	0
Economic and third sector fraud	0
Debt fraud	0
Pension fraud	0
Investment fraud	0
Payroll and Employee contract fraud	7
Expenses fraud	0
Abuse of position	4
Disabled parking concession	0
Recruitment fraud	2
Other fraud	0

Checklist for those responsible for governance.

- 45 The Audit Commission has included a checklist within the Protecting the Public Purse report which is intended to allow those responsible for governance to assess their counter-fraud arrangements against stated good practice. Internal Audit has completed the checklist on behalf of the Audit Committee and a copy is attached at Appendix A.
- 46 The tolerance of fraud within an organisation is a key element of a counter fraud framework. SCC has formally adopted a Policy Statement on Fraud & Corruption that underlines a zero tolerance to such acts. Fraud awareness training has been provided to services throughout the Council and Sheffield Homes and an e-learning course has been developed and made available on learning pool to assist any identified staff development requirements.

Recommendations

- 47 That the Audit Committee notes the content of this report.
- 48 That the Audit Committee notes the completed checklist for those responsible for governance (Appendix A)

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Appendix A - Protecting the Public Purse 2012

Checklist for those responsible for governance (Extract from Audit Commission full national report)

General		Yes	No	Action
1	Do we have a zero-tolerance policy towards fraud?	✓		<p>The Policy Statement - Fraud & Corruption incorporates a message from the Chief Executive which clearly states the 'zero tolerance' approach of the authority. It incorporates the fact that any instances of fraud or corruption will be treated as gross misconduct. The Policy Statement forms part of the Corporate Code of Conduct for Employees.</p> <p>The 'zero-tolerance' message was included in fraud awareness training events which were delivered to managers/employees across SCC and Sheffield Homes. This message was also incorporated into a fraud awareness course available to staff on learning pool.</p>

2	Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	✓		<p>The following fraud related strategies, policies and plans are in place:</p> <ul style="list-style-type: none"> Financial Regulations 2012 Code of Conduct for employees Policy Statement – Fraud & Corruption (Appendix to the above) Housing Benefit /Council Tax Benefit Fraud Strategy (HB/CTB) HB/CTB Prosecution Policy Money Laundering Policy Whistleblowing Policy Regulation of Investigatory Powers Act Policy Internal Audit Plan (incorporating pro-active and re-active counter-fraud assignments) Finance Service Plan (including specific counter-fraud related deliverables) Fraud Response Plan Capita Fraud Team Workplan Risk Management Toolkit Fraud Risk Management guidance Annual Governance Statement (Fraud Risks) <p>SCC performed a self-assessment of its approach to fraud and corruption based on CIPFA's Red Book 2, which contains much of the material published in April 2012 (<i>Fighting Fraud Locally</i>). Anti-Bribery policy is currently being developed.</p>
3	Do we have dedicated counter fraud staff?	✓		<p>Service Managers are responsible for the investigation of fraud within their respective areas. Internal Audit has accredited officers available to investigate larger scale allegations and provide advice to managers.</p> <p>There is a dedicated Housing Benefit Counter Fraud team located in Capita.</p>

4	Do counter-fraud staff review all the work of the organisation?	✓	<p>The Authority employs (via Capita) a dedicated HB / CTB fraud investigation team which receives allegations from various sources including Benefit assessment staff.</p> <p>Internal Audit maintains a resource to address fraud issues e.g. policy issues, serious allegations etc. and the Internal Audit plan contains a small number of counter fraud exercises to review specific fraud risks.</p> <p>Service Management has the primary responsibility for internal fraud investigation (with the support of Human Resources).</p> <p>Internal Audit operates a risk based approach to auditing and key risks are identified for inclusion in the audit plan in conjunction with Service management.</p> <p>Internal Audit has produced and implemented a 'fraud-watch' document which provides guidance on fraud indicators to auditors undertaking general risk based audit assignments. This ensures that the risk of fraud is formally considered / reported during every audit review.</p>
5	Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	✓	<p>The Annual Governance Statement provides a level of assurance that fraud risks have been identified and addressed.</p> <p>The Internal Audit Plan is endorsed by the Audit Committee on an annual basis and the Chief Internal Auditor produces an annual report which includes information on counter fraud activities.</p> <p>An annual Risk Management report is submitted to the Audit Committee.</p> <p>An annual Fraud Report, based on the Audit Commission publication, Protecting the Public Purse, is submitted to the Audit Committee.</p> <p>Individual investigation reports are provided for serious incidents.</p>
6	Have we assessed our management of counter fraud work against good practice?	✓	<p>A full review of SCC practice compared against CIPFA's 'Red Book 2' was completed.</p>

7	<p>Do we raise awareness of fraud risks:</p> <ul style="list-style-type: none"> • With new staff (including agency staff)? • With existing staff? • With elected members? • With our contractors? 	✓		<p>A programme of awareness training was provided in 2009/10 and 2010/11. This training has been delivered to more than 600 employees across SCC and Sheffield Homes.</p> <p>A specific training session was organised for the Audit Committee in February 2010 and all members were invited.</p> <p>Fraud awareness is not currently included in the corporate induction programme beyond the requirement to read the Code of Conduct for employees (incorporating the Policy Statement – Fraud & Corruption).</p> <p>An e-learning fraud awareness course has been produced and made available to all staff with access to Learning Pool for whom a development need is identified (including new recruits).</p> <p>Commercial fraud risks are addressed by a requirement for contractors to comply with all current legislation (and indemnity provision) being incorporated into the standard terms and conditions. In addition specific anti-competitive and anti-bribery conditions apply to the contracting process.</p>
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8	Do we work well with national, regional and local networks and partnerships to ensure that we know about current fraud risks and issues?	✓	<p>SCC maintains membership with Core Cities and the South & West Yorkshire Investigators Group. SCC is an active participant in the Audit Commission National Fraud Initiative including pilot projects.</p> <p>Internal Audit & Capita (contractor capacity) work directly with the Department of Work and Pensions, the Local Authority Investigation Officer Group and the National Anti-Fraud Network. The National Anti-Fraud Network and the Financial Crime Information Network provide bulletins on current fraud risks. Internal Audit staff are members of professional bodies such as CIPFA, Institute of Internal Auditors and the Institute of Rating, Revenues and Valuation. These bodies provide periodic updates in areas such as fraud risks. These updates are cascaded throughout the team as appropriate.</p> <p>Internal Audit's previous subscription to CIPFA's Better Governance forum was cancelled as a cost-saving measure.</p>
9	Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	✓	<p>As 8 above plus:</p> <p>A formal Service Level Agreement is in place for working arrangements with Department of Work and Pensions.</p> <p>The Audit Commission National Fraud Initiative (NFI) operates under formal arrangements and provides for the sharing of data between local authorities and other participating organisations.</p> <p>Internal Audit maintains an informal working arrangement with South Yorkshire Police (Commercial Branch).</p>

10	Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	✓		<p>The annual Internal Audit Plan includes 'risk-based' audits based on a risk assessment and discussion with Service Directors. Each of these reviews includes an assessment of the internal controls within scope to identify instances in which they are not present or not working effectively. Auditors consider fraud indicators for each assignment.</p> <p>Where appropriate recommendations are made to improve internal controls at the conclusion of each review, implementation is confirmed with the client and followed up.</p> <p>A small number of pro-active counter fraud reviews are included in the Internal Audit Plan that focus on activities where, due to the nature of the service, the risk of fraudulent activity is heightened. At the conclusion of appropriate re-active investigations, systems and controls are reviewed to identify weaknesses and to recommend improvements to prevent future instances of fraud.</p>
11	Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on outcomes?	✓		<p>The Council has been a participant in the NFI since 1995. Data matches are circulated to all relevant service areas and Capita for examination and resolution. Internal Audit maintains a co-ordinating and advisory role in addition to responsibility for examination of some data matches.</p> <p>SCC participated in the NFI Council Tax, single person discount data matching exercise for the first time in 2012.</p> <p>SCC is currently taking part in a NFI pilot exercise to data match Self Directed Support (Direct Payments) with other local authority and central government data.</p>
		Yes	No	Action
12	Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	✓		<p>SCC has adopted a detailed Anti Money Laundering Policy. This document includes an appendix which contains guidance to staff and is available via the Intranet. Incidents are reported to Internal Audit and in turn the Serious Organised Crime Agency.</p>

13	Do we have effective arrangements for: <ul style="list-style-type: none"> • Reporting fraud • Recording fraud and • Whistle-blowing? 		✓	Financial Regulations require Executive Directors to ensure that Internal Audit (on behalf of Section 151 officer) is notified of all incidents of financial irregularity. Internal Audit records each reported incident and compiles the Audit Commission annual Fraud and Corruption survey. SCC has adopted an extensive Whistleblowing Policy (See it – Say it) that contains an explanation on whistleblowing arrangements and the reporting access routes including the details of designated contact officers. The Human Resources Service maintains a central register of allegations. Although the above controls are in place, full compliance cannot be assured.
14	Do we have effective fidelity insurance arrangements?	✓		SCC's fidelity insurance covers every employee to a limit of £10M.
		Yes	No	Action
15	Have we re-assessed our fraud risks since the change in the financial climate?	✓		The Internal Audit plan is produced on an annual basis, the formulation of this plan incorporates new and emerging risks including those associated with the current financial climate. Within the planning process Executive Directors and/or Service Directors are consulted on the risks affecting their service areas. In addition to the above, Directors / Service Heads are required to re-assess fraud risks on an annual basis for completion of the Annual Governance Statement.
16	Have we amended our counter fraud action plan as a result?	✓		The level of Internal Audit resource allocated to counter fraud activity was increased over recent years. This was undertaken to improve the counter fraud framework and also in response to emerging issues. Additional pro-active reviews were introduced to examine internal controls in areas facing fraud risks. Face to face fraud awareness training and subsequently an e-learning package were delivered to improve staff knowledge and general alertness to acts of irregularity.

17	Have we reallocated staffing as a result?	✓		Counter fraud resource, in terms of FTE, has been reduced as a result of budget pressures in Capita and Internal Audit. The Chief Internal Auditor has increased vigilance against the risk of fraud with the introduction of the 'fraud watch' process applied to all risk based audits. In the event of a large scale investigation resources would be diverted from mainstream audit functions. The feasibility of resource sharing with Core City Authorities is being explored.
18	Do we take proper action to ensure that we only allocate social housing to those who are eligible?	✓		The social housing allocations process was audited in 2009 and is being re-reviewed in 2012/13. A revised lettings policy was presented to Cabinet on 20 th March 2013.
19	Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	✓		A pilot exercise funded by the DCLG to identify unauthorised occupation of Council property was undertaken by Sheffield Homes resulting in the recovery of 6 tenancies. Home visits and day to day contact with tenants provides assurance on occupancy however resources have not been allocated to detect tenancy fraud. The 2013/14 Internal Audit plan includes a review of internal controls in respect of Housing Tenancy Fraud and the application of new offences.
20	Are we satisfied our procurement controls are working as intended?	✓		Internal Audit conducted two audits in this area in 2011/12. The Purchase to Payment review covered the creditors systems whilst the 'Standing Orders-Waivers and Tendering' review dealt with the front end procurement processes. Both audits resulted in Internal Audit issuing an opinion on the risk of the service not achieving its objectives of 'Medium – Low'. Three audits have been included in the 2013/14 audit plan, these being, E-Business MyBuy, Purchasing Budget Monitoring (Communities) and a Purchase to Payment main financial systems review.

21	<p>Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels and compared them to best practice?</p>	✓		<p>Aspects of contract letting feature in the Internal Audit annual plan. During 2012/13 Internal Audit conducted the following reviews; Commercial Services, Use of Consultants, Contract Waivers.</p> <p>In 2013/14 the following reviews are scheduled; Sheffield Contract Management System (Information Technology) review, E-Business MyBuy review and Kier LLP Succession Planning.</p>
22	<p>Are we satisfied that our recruitment procedures achieve the following:</p> <ul style="list-style-type: none"> • prevent us employing people working under false identities? • confirm employment references effectively? • ensure that applicants are eligible to work in the UK? • require agencies supplying us with staff to undertake the checks we require? 	✓		<p>Internal Audit completed a propriety review of a sample of 20 new starters in July 2011. No significant issues were identified. A Human Resources Starters & Leavers (inc VS/VER) review was completed in 2012/13.</p> <p>The National Fraud Initiative matches payroll records against Immigration records every two years and reports any instances of potential illegal working for investigation. The most recent NFI exercise reports were delivered in February 2013 and there were no Immigration matches identified.</p> <p>SCC uses one agency to source temporary staff (Reed). A Value for Money review of the Use of Agency staff is scheduled in 2013/14.</p>
23	<p>Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?</p>	✓		<p>An Internal Audit review of the Self Directed Support Programme was completed in November 2011. A review of SDS Operational Controls was completed during 2012/13 and a Counter Fraud examination of SDS payment controls is in the process of completion.</p> <p>A number of audits have been scheduled for completion in 2013/14 concerning Adult Social Care including Safeguarding in Sheffield Health and Social Care Trust.</p>

24	Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	✓	<p>The SCC Whistleblowing Policy is intended to be used to report inappropriate behaviour by members / officers of the council including financial malpractice.</p> <p>The highest risks relating to personal budgets are associated with misuse by service user and abuse by service providers and family members.</p> <p>The SCC website has a simple link (2 clicks from the homepage) which gives access to advice on 'Reporting Abuse'. This specifically refers to financial abuse and provides links to the Council, South Yorkshire Police and specialist support organisations.</p>
25	Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	✓	<p>The Council Tax and Business Rates systems (including discounts) are regularly reviewed by Internal Audit as part of the assurance provided on the Council's main financial systems.</p> <p>A data matching exercise was undertaken by Capita in 2010/11 comparing SCC SPD data against Experian data.</p> <p>This exercise resulted in 327 ineligible discounts being cancelled generating an extra £39,537 in council tax income.</p> <p>SCC participated in the National Fraud Initiative, Single Person Discount data matching exercise during 2012/13 and the examination of matches resulting in the identification of circa. £156k in collectable income.</p>

26	<p>When we tackle Housing and Council Tax benefit fraud do we make full use of:</p> <ul style="list-style-type: none"> • National Fraud Initiative (NFI) • Department of Work and Pensions • Housing Benefit matching service(HBMS) • Internal data matching • Private sector data matching? 	✓		<p>SCC participates fully in the main biennial NFI exercise and during 2012/13 the NFI, Single person Discount exercise. Capita and Internal Audit have in the past utilised the DWP HBMS service to identify potentially fraudulent claims however this process has been temporarily paused within contract management arrangements and with the agreement of the DWP. A new e-communication system (ATLAS) has been introduced by the DWP to provide local authorities with up to date information on changes in circumstances affecting Benefit claims. Capita has utilised private sector data matching techniques to identify potential Housing Benefit fraud in addition to obtaining credit referencing agency data during individual investigations.</p>
27	<p>Do we have appropriate and proportionate defences against emerging fraud risks</p> <ul style="list-style-type: none"> • Business rates • Right to buy • Social Fund and Local Welfare Assistance • Local Council Tax Support • Schools • Grants? 	✓		<p>Emerging fraud risks are taken into account in the formulation of the Internal Audit annual plan in addition to other identified risks. Examination of emerging risks is included in the scope of planned audits or scheduled for specific future review. For example, a specific review of the Local Council Tax Support and Hardship Fund has been included in the 2013/14 Internal Audit plan. The Social Fund and Local Welfare Assistance scheme has been identified for future audit. Risks relating to Business Rates will be included within the scope of the Main Financial Systems review (National Non Domestic rates) and the risks relating to schools were examined in a number of themed reviews e.g. Financial Management – Protecting Public Money, concluded in March 2012.</p>

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SHEFFIELD CITY COUNCIL

Chief Executive's Directorate

REPORT TO AUDIT COMMITTEE

DATE

17 April 2013

REPORT OF

Assistant Director Finance – Business Partnering and Internal Audit

ITEM

SUBJECT

Internal Audit Plan 2013/14

SUMMARY

The report presents the Internal Audit Planning Strategy and programme of work for 2013/14.

RECOMMENDATIONS

In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice (including CPA requirements) it is recommended that Members endorse the attached programme of work for 2013/14.

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
33

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

K Inman

TEL NO.

273 5608

AREA(S) AFFECTED

**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

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

REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE
17th April 2013

Assistant Director Finance (Business Partnering CYPF & Internal Audit)
Report – 2013/14 Audit Strategy and Work Programme

Purpose of the Report

1. The purpose of this report is to present and communicate to members of the Audit Committee the Internal Audit plan and strategy for 2013/14.

Background

2. Up until 2011/12 Internal Audit planning had followed a risk assessment of the risk profile of the Council. Annually, the Audit Managers went through a robust process of assessing as many audit areas as could be identified. Each auditable area was risk scored using a tried and tested methodology which was consistent with best professional practice. The risk assessment and discussions with senior managers lead to the formulation of the Annual Audit Plan which was presented to the Audit Committee.
3. The above system was adequate when Internal Audit resources were sufficient to at least cover the vast proportion of the highest scoring risk areas, the so called 'A' risk audits. However since the reduction in workforce, and increasing financial risk across the authority arising from budget reductions, the plan identified that more 'A' rated audits were being excluded rather than included in the plan.
4. A new approach for the audit planning processes was introduced for 2012/13, and subsequently presented to the Audit Committee in May 2012. The strategy for future Internal Audit work was to focus on specific areas of activity which could provide assurance that risk and internal control issues were being properly managed by Directors in service areas. In addition, increased allocations of audit resources for other 'fire fighting' tasks were made.
5. During the financial year 2012/13 there was a decrease in the number of fraud referrals received by Internal Audit. The prime reason for this was an agreed reduction in the processing of Department of Work and Pensions data matching referrals (Housing Benefit Matching Service) received by the Capita counter fraud team.

Audit Strategy

6. The utilisation of Internal Audits' resources has been structured around the following:
 - More utilisation of the information provided by Directors under the Annual Governance Statement (AGS) process.
 - More utilisation of the Corporate Risk Management process including the Corporate Risk Register and Portfolio Risk Management Plans.

- A reduction around the Main Corporate Systems i.e. Internal Audit of Projects, Programmes and Partnership arrangements.
- Fraud, theft and corruption allegations (re-active investigations).
- Pro-active counter fraud work.
- Main Financial Systems (MFS) work.
- Continued use of Salford for the delivery of the more technical aspects of the IT audit plan.
- The balance of audit resources to be utilised on the areas of highest perceived risk at any given time i.e. not necessarily an annual plan but possibly as determined by the Chief Executive/Executive Management Team (EMT)/Executive Director - Resources/Director of Finance/Assistant Director Finance (Business Partnering CYPF & Internal Audit) /Senior Finance Manager/ Finance Managers.

Utilisation of the Annual Governance Statement

7. The process for collating information for the production of the AGS was established by Internal Audit and is being managed by Legal and Governance for 2013/14. The information which Directors submit and sign up to provides a wealth of information on how some of the most important internal control arrangements are managed within services. Audit Managers review this information when identifying areas for the audit plan.

Utilisation of the Corporate Risk Management Arrangements

8. The current risk management process requires service areas to consider risks and either manage and mitigate risks or escalate them up through a process to leadership teams and/or EMT. The information contained within the Corporate Risk Register and Portfolio Service Risk Management Plans provide a broad range of risks facing the Council and identifies risk controls, costs, escalation process etc. A number of the higher risk rating entries on the registers/risk management plans have been included in the audit plan.

Main Corporate Systems

9. During 2012/13 Internal Audit introduced more in depth and detailed testing of Main Corporate Systems, these systems were:
 - AGS
 - Risk Management Arrangements
 - Performance Management Framework
 - Project and Programme Management
 - Partnerships and Contracts
10. A number of audits have been conducted during 2012/13 and a significant number of these reports have been assigned the Audit opinion of 'Low' and 'Medium-Low' (refer to the 'Output report – Activity by opinion report' presented at this Audit Committee). This has provided assurance of compliance with some of the Councils most important controls, policies

and procedures. The audit coverage for Main Corporate Systems has therefore been reduced to reflect this and a more detailed testing regime will be introduced on a cyclical basis.

11. In relation to Projects and Programmes the audit work and coverage during 2012/13 has identified individual projects which have been included within Portfolio plans for review. We have therefore formalised our role by developing a systematic approach to auditing the major projects based on factors such as size of the project and key milestones e.g. assessing the project outline, reviewing governance arrangements and the completion of post project reviews. It is not intended that Internal Audit will become required members of project or programme management boards.
12. Partnerships seem to regularly provide difficult issues for the Council to deal with. Internal Audit have identified the most significant partnerships and take a view on associated risk and review partnership arrangements as a matter of course. In addition to the Kier Partnership review within the Main Corporate System section of the audit plan some partnership reviews are included within the Portfolio plans.
13. Performance management framework audit coverage has also been reduced for the 2013/14 audit plan due to the positive and 'Low' opinion reports issues for 2012/13. The intelligence gained from these reviews will feed into future Service area reviews.

Fraud Allegations (Re-active investigations)

14. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft and corruption. During 2012/13 the number of Housing/Council Tax benefit allegations received by Internal Audit has decreased due to an agreed reduction in the processing of allegations by Capita. Consequently the time allocated for this type of work during 2013/14 has been reduced. Nevertheless, in the event that the volume of allegations increases or a large scale investigation becomes necessary, resources will be transferred from other areas of the Internal Audit plan. It is likely that the next few years will see an upturn in reported irregularities due to a number of factors such as:
 - Capita return to previous levels of counter fraud activity
 - Changes of personnel and reporting lines leading to discovery
 - Squeezed budgets giving fraudsters less room to manoeuvre
 - Reduced levels of internal control as managers seek to manage with fewer resources.
15. The nature of this type of work tends to require more input from audit management.

Pro-active Counter Fraud Work

16. Despite the changes introduced for external audit and the role of the Audit Commission, the National Fraud Initiative (NFI) element of the Commissions work will continue (probably under the auspices of the National Audit Office). This element of work has grown in recent years and will probably continue to expand and is no longer exclusively focused on Housing Benefit fraud, new areas of scrutiny continue to be added e.g. most recently tenancy fraud and abuse of the blue badge scheme. During 2011/12 SCC participated in an additional biennial Council Tax, Single Person Discount NFI exercise and is currently participating in a national pilot NFI exercise involving Self Directed Support (Direct Payments).
17. In addition to the above externally generated work, in recent years Internal Audit have included a number of exercises in the plan directed primarily at consideration of the specific risk of fraud in an area of activity, for example employee expenses, grants and fuel management. These exercises have been successful in identifying irregularities and weak/inconsistent controls and management arrangements. Internal Audit has also introduced an approach within mainstream risk based audits to identify areas which are potentially more susceptible to fraud-risk and which could identify areas worthy of a more intensive scrutiny from a counter-fraud perspective. During recent years Internal Audit has provided fraud awareness presentations to Council and Sheffield Homes employees to improve defences against fraud. An e-learning course has now been developed and made available to replace face to face training. Whilst the allocation available for this element of work has been reduced a small number of pro-active exercises have been included in the 2013/14 plan.

Main Financial Systems (MFS)

18. Internal Audit have for a number of years tried to reduce the time devoted to MFS work, however it is unlikely that this could be reduced further and we may come under pressure to increase this work at the behest of external audit. External Audit place reliance on the soundness of the MFS and assurance from the work of Internal Audit on these systems. Any work undertaken on the MFS by external audit is likely to be in the region of double the price of Internal Audit on a day rate basis. Key Financial Systems have been selected for the 2013/14 audit plan, including a number of follow up reviews. The Director of Finance believes this aspect of the work of Internal Audit to be crucial in supporting the S151 officer responsibilities.

ICT

19. The partnership for technical ICT support has been re-tendered this year, and the successful bidder was Salford, who we have worked with Internal Audit for a number of years. They will be delivering 3 of the more technical audits on the audit plan, using their ICT knowledge and expertise.

Risk Based Audits of Systems/Services/Functions

20. It is proposed that the much reduced resource not utilised on the above elements is devoted to undertaking reviews of the areas of most perceived risk as identified by Internal Audit in consultation with key officers i.e. principally the Executive Director - Resources/Director of Finance/Chief Executive plus Executive Directors and Directors. The proposed level of consultation already happens under current arrangements to a large extent, however, the basis of the planning discussions were not a fully risk scored audit universe but more reliant on perceived areas of risk and emerging issues.
21. At the beginning of each audit assignment the relevant service manager will also be consulted to ensure that current risk areas are included in the remit for the work.
22. Two audits have been included within the Communities Portfolio plan to review the integration of Sheffield Homes. These audits will be undertaken during the first two quarters to promptly identify any significant issues during this transition process for management action.

Resilience

23. Internal Audit has considered how it could handle business as usual in the event of a major investigation. Prior to the Chief Internal Auditors retirement he produced a protocol to 'share' resources with other local authorities for use in such an event. Initial discussions have been held with the Core City Authorities who are all receptive to the development of a protocol to govern resource sharing and this will be explored further with neighbouring authorities.

Summary of the Audit Plan

24. The following represents the summary of the planned audit time for the current year.

Auditable Area	Days
Children, Young People and Families (CYPF)	341
Place	287
Communities	464
Strategic Resources	321
ICT	198
Deputy Chief Executives	0
Core Public Health	18
Main Financial Systems	136
Main Corporate Systems	178
Counter Fraud	246
Housing Benefit	63
Total	2252

25. The Internal Audit teams have been reconfigured following changes in the approach to planning and an overall reduction in the establishment. The promotion of a Finance Manager has resulted in a redistribution of workload and Portfolio leads to the remaining Finance Managers. This structure will be reviewed at mid-year to ensure effective working arrangements and distribution of responsibilities. This is shown in diagrammatic form at Appendix 1.

26. The 2013/14 annual plan is attached at Appendix 2.

Future Considerations

27. Throughout the coming year, Internal Audit will evaluate the plan to ensure we are directing internal audit resources at the main risks facing the authority.

28. Given that the operating environment of the Council is changing rapidly, it has been agreed that the planning process needs to be much more flexible and responsive than in previous years. These changes include Deputy Chief Executives restructure, Sheffield Homes Integration and Public Health transfer. Internal Audit will ensure that key officers are able

to suggest areas for review at any time rather than at a fixed planning stage. This approach will potentially involve a greater level of management liaison with senior officers throughout the year.

29. Internal Audit would like to emphasise that the 2013/14 plan is very challenging and is based around some difficult targets for each auditor. Reducing resource bases across the authority and the changing environment meant that in 2012/13, Internal Audit experienced difficulties delivering all the planned audits as delays engaging officers from across the council significantly impacted on our ability to start, progress and complete reviews in a timely manner. This situation will most likely worsen in the next financial year which could then have a knock-on effect on Internal Audits' ability to achieve planned outputs. This situation will be monitored continuously throughout the year, and appropriate adjustments made to the tactical plan as required.

FINANCIAL IMPLICATIONS

30. There are no direct financial implications arising from the report.

EQUAL OPPORTUNITIES IMPLICATIONS

31. There are no equal opportunities implications arising from the report.

CONCLUSION

32. The audit plan summarises a risk based programme of work which demonstrates that the Council has made provision to discharge its (and officers) statutory responsibilities.

RECOMMENDATION

33. In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice it is recommended that Members endorse the attached programme of work for 2013/14.

Laura Pattman
Assistant Director Finance
(Business Partnering CYPF &
Internal Audit)

Kayleigh Inman
Senior Finance Manager

Audit Manager Clive Sellens
Counter Fraud
Housing Benefit

Audit Manager Helen Moltano
Communities
Main Financial Systems
Main Corporate Systems

Audit Manager Linda Hunter
Place
Children, Young People and Families (CYPF)

Audit Manager Stephen Bower
Strategic Resources
ICT
Core Public Health

CORPORATE FINANCE - INTERNAL AUDIT

TACTICAL PLAN 2013/14

SUMMARY

	DAYS
Children, Young People and Families (CYPF)	341
Place	287
Communities	464
Strategic Resources	321
ICT	198
Deputy Chief Executives (DCX)	0
Core Public Health	18
Main Financial Systems	136
Main Corporate Systems	178
Counter Fraud	246
Housing Benefit	63
TOTAL	2252

INTERNAL AUDIT TACTICAL PLAN 2013/14

CHILDREN, YOUNG PEOPLE AND FAMILIES

Children's Commissioner

Schools Accountability and Monitoring Framework (Joint Working)

Inclusion and Learning (ILS)

SEN Transport

Children and Families

Adoption Service

Safeguarding - Sexual Exploitation Service

Youth Justice Service

SEN/Disability Out-of-City Placements

Themed Reviews

Users of Independent Payroll Services

School Appointments, Terminations and Amendments to Pay

School Governing Body Arrangements

School Attendance / MAST Team

Schools Annual Report

Business Strategy

CYPF Capital Programme

School Meals - Contract Monitoring and Quality Assurance

Value For Money review - Mainstream School Transport

Lifelong Learning and Skills

Funding Learning Difficulties & Disability Learners

Adult and Community Learning

Sheffield Futures - contract monitoring arrangements

Raising of Participation Age Strategy

Follow Up Reviews

12/13 Budget Strategy (M-H)

Safeguarding in schools (M-H)

Banking Arrangements in Schools (M-H)

Joint Health Commissioning Group (M-H)

Financial Management Standard - Protecting Public Money (M-H)

Other in-year follow-ups

Work in Progress

First Call

Apprenticeship Scheme

Public Health Transfer Issues

School Improvement Planning (subject to outcome of school balances audit 12/13)
Supporting Schools in Financial Difficulties
Direct School Grant Funding Changes / Use of reserves/School Forum

INTERNAL AUDIT TACTICAL PLAN 2013/14

PLACE

Development Services & Regeneration

Department of Energy and Climate Change (DECC)
Local Authority Competition Grant
Department of Energy and Climate Change (DECC)
Low Carbon Pioneer Cities - Core Cities - Green
Deal Component
Sustainable Housing & Affordable Warmth Team
(SWaN Housing)
Sheffield Housing Company
Transport, Traffic and Parking Services
Delivery of Highways Schemes

Business Strategy & Regulation

Waste Contract - Veolia
Licensing and Income
Car Parking Income

Culture & Environment

Sport England Grant
Activity Sheffield

Creative Sheffield

Capital & Major Projects

Projects - Risk Management and Reporting
Service Review
Assets for Disposal
Workshop - Capital Programme Monitoring

Follow Up Reviews

Marketing Sheffield	H
Trading Standards	H-M
Marketing & Economic Strategies for Sheffield	
Arena	H-M
Park Hill	H-M
Capital Delivery	H-M

Audit Committee

Internal Audit Annual Report
Delivery Internal Audit Activity
Tactical Plan

Work in Progress

Galileo Admin

First Call

Highways PFI - Client Monitoring Arrangements
Public Health Transfer

INTERNAL AUDIT TACTICAL PLAN 2013/14

COMMUNITIES

Care and Support

Early Intervention and Prevention - Community Assessment and Reablement Service
Early Intervention and Prevention - Short Term Intervention Team/Community
Intermediate Care Service
Self Directed Support - Quality Assurance process for support plans
Transitions from Childrens to Adult Social Care
Purchasing Budget Monitoring
Continuing Health Care - operational controls
Sustainable Quality in Adult Social Care Services
Early Intervention and Prevention - Homelessness
Right First Time Strategy & Practices
Learning Disabilities

Sheffield Homes Integration

Governance arrangements
Merger to Business as Usual Review

Housing

Rent arrears/ collections
Quality monitoring/ responsive repairs
Welfare reforms & vacants/bedroom tax

Commissioning

Housing Revenue Account/Self Financing
Home Care strategy & arrangements
Quality of Market exercise review

Business Strategy

Serious Incidents Process
Communities Performance
Safeguarding in Sheffield Health and Social Care Trust
Data Security

Community Services

South Yorkshire Archives/South Yorkshire Archaeology
Public Health Transfer - Drug Alcohol and Domestic Abuse Team

Follow Up Reviews

Adults Out of City Placements (M-H)
Framework Agreements (M-H)
Social Care Accounts Service (M-H)
Continuing Health Care (M-H)

Other Follow ups

Work In Progress

Audit Committee

High Opinion Reports - update

First Call

Public Health Transfer

Use of Agency staff (Value For Money)

Community Assemblies review

INTERNAL AUDIT PLAN 2013/14

STRATEGIC RESOURCES

Legal and Governance Services

Service Review

Charging and caseload management (combine with the above)

Use of External legal advice (tendering and use)

Business Partnering

Implementation of the new Target operating model

Strategic Finance

Treasury Management and Bank Reconciliations

Capital Contracting Controls

Review of Financial procedures manual

Insurance claims management (Probity and Value For Money)

Human Resources (HR)

Payroll and HR controls

Evaluation of leavers processes

Use of Agency Staff (part Value For Money)

Commercial Services

Electronic Business Programme (My Buy)

Customer Services

Out of Hours Service Review

Review of Business Support Project

Register Office Follow-up

Transport Services

Transport Services Review

Facilities Management Contracts and Performance Management

Follow-ups

Payment Card Industry - Data Security Standards - Payment Cards

Urban Traffic Control

Telecommunications

Software Licencing

Use of Consultants

Overtime Monitoring

Ledger Reconciliations

To be allocated

Audit Committee

Galileo Admin

Work in progress (2012/13)

First Call

Vehicle procurement

INTERNAL AUDIT PLAN 2013/14

ICT

Review of Business Change arrangements

Information Governance

Data Protection Breaches
Freedom of Information arrangements

ICT Management

Chargeback project
Follow up of Configuration Management Data Base Audit (CMDB)

ICT Technical

Physical and environmental Controls Salford
Capacity Management/ Availability Management Review Salford

Application Full Reviews

Online Benefits System (used for benefits management) Salford
Choice Based Lettings (system used for Council Housing Management)
My Buy (Front end application for ordering and interaction with suppliers)

Application Key Risk Reviews

AIM (AXIS Income Management System)
SCMS (Sheffield Contract Management System)
Care First (Social Care Management System (Financial Aspects))

First Call

Magnolia (Internet system)
Technology Forge (asset system)
Business continuity

INTERNAL AUDIT PLAN 2013/14

Chief Executives Service Area

No audits are planned in this area in the current year

Audits will be undertaken of the Performance Planning System, which are noted under that area of the plan

Public Health - Core

Review of the service core

Devolved areas of public health which are part of portfolio responsibilities are covered under the respective portfolio plans

INTERNAL AUDIT TACTICAL PLAN 2013/14

MAIN FINANCIAL SYSTEMS

Payroll Audit Reviews
National Non Domestic Rates (NNDR) Systems
Council Tax System
Debtors Controls
Purchase 2 Pay Audit Review
Financial Controls in CYPF

Follow up

Corporate Asset Register
NNDR
Debtors
other

MFS - council process overview

INTERNAL AUDIT TACTICAL PLAN 2013/14

MAIN CORPORATE SYSTEMS

Performance Management Framework

Portfolio Testing

Service Business Planning (Resources)

Quality Assurance /use of Performance Indicators (Communities)

Reporting/Escalation (CYPF)

Annual Governance Statement (AGS)

AGS Statement Production

Portfolio Testing

Data Quality Checks

Risk Management

Corporate Risk Management Review - Progress update

Risk Management Process - compliance review - Resources

Portfolio

Work In Progress

Risk Management Process - quality of risk mitigation

Partnerships and Contracts

Succession Planning For Kier LLP

Programme and Project Management

Programme Management Arrangements in PLACE

Programme Management Arrangements in Resources

INTERNAL AUDIT TACTICAL PLAN 2013/14

Counter Fraud Investigations

Description

Re-Active

Investigations
Advice to Management
Investigation Liaison Meetings
Salary Exceptions
Audit Committee (Fraud Report)

Pro-Active Operational

National Fraud Initiative 2012 - Investigation
National Fraud Initiative - corporate co-ordination
National Fraud Initiative - Direct Payment matches evaluation
National Fraud Initiative - Blue Badge review
Members Interests

Pro-Active Strategic

Fraud Awareness E-learning review/update

Pro-Active Initiatives

Housing Tenancy Fraud
Fraudwatch Returns
Property Services - procurement

Housing Benefit/Council Tax Support

Council Tax Support / Hardship Fund
Housing Benefit Review
Universal Credit
Single Fraud Investigation Service

Work in Progress

First Call

Foster Care Payments



Agenda Item 8

Audit Committee Report

REPORT TO AUDIT COMMITTEE

DATE

17 April 2013

REPORT OF Assistant Director of Finance, Business Partnering and Internal Audit.

ITEM

SUBJECT

Compliance with International Auditing Standards

SUMMARY

This report has been drafted at the request of the Chair of the Audit Committee to highlight to the Audit Committee how they can demonstrate to the External Auditors that they have exercised the required oversight in order to meet the requirements of the International Standards on Auditing.

RECOMMENDATIONS

Members are asked to confirm that the report gives an accurate reflection of the reports that they have received and considered throughout the year. Members are also asked to confirm that they now have an overview of the Council's systems of internal control so that they are assured that they are fulfilling the requirements of "those charged with governance" under the International Auditing Standards.

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
17

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

Kayleigh Inman

TEL NO.

273 5608

AREA(S) AFFECTED

CATEGORY OF REPORT

Open

Statutory and Council Policy Checklist

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

Sheffield City Council

Report to the Audit Committee April 2013

Compliance with International Auditing Standards (IASs)

Elements of the Council's System of Internal Control reviewed by the Audit Committee in order to form their opinion on the adequacy of control

Introduction

- 1) As part of the requirements of the International Auditing Standards (IAS) there is a requirement for those charged with governance (in the case of Sheffield City Council this is the Audit Committee) to demonstrate that they have exercised adequate oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. This is an annual report which consolidates the oversight that has been undertaken by the audit committee. This report formalises in one document the assurance work undertaken by Audit Committee during the past year and demonstrates to the External Auditors and the wider public that all the areas of the control framework have been adequately assessed.
- 2) This report has been drafted at the request of the Chair of the Audit Committee to highlight to the Audit Committee how they can demonstrate that they have exercised the required oversight in order to meet the requirements of the International Standards on Auditing.
- 3) The Council's External Auditors have changed during the year from the service provided directly by the Audit Commission to KPMG following a national procurement exercise undertaken by the Audit Commission prior to its abolition.

Key Requirements of the Internal Auditing Standards

- 4) *The key elements that are required to be covered by Members in relation to the IAS are noted below.*
- 5) *Under International Auditing Standard on Auditing (UK&I)240 the Audit Commission are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. Explicit to this is gaining confirmation from the Audit Committee of the following:-*
- 6) *(i) how the Audit Committee oversees management processes to identify and respond to such risks (ie both counter-fraud arrangements, and more general oversight of internal control arrangements), and*

(ii) whether you have knowledge of any actual, suspected or alleged frauds affecting the Council.

- 7) *A second International Standard on Auditing (ISA(UK&I)250) requires that auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with. Again an understanding of how this responsibility is discharged.*
- 8) *Additionally those charged with governance must approve the financial statements, so an understanding as to how the Audit Committee obtains the necessary assurances to discharge this responsibility (for example assurances over the qualifications, experience and suitable numbers of key accountancy staff preparing the accounts, robust general ledger and key financial systems, adequate closedown planning, suitable Quality Assurance processes).*

Areas Covered in the Report

- 9) The following paragraphs summarise how the Members of the Audit Committee can gain assurance that key elements of the Council's internal control systems are being reviewed and reported to the Audit Committee. This is a consolidation report of items that are reported to the Committee throughout the year, so that the Committee can be assured that the various elements are covered: -
- Annual Accounts
 - System of Internal Control
 - Governance Arrangements
 - Counter Fraud Arrangements
 - Risk Management
- 10) The report will also highlight where it has been agreed to supply additional information over the coming year to the Audit Committee on specific issues. Officers of the Council and the External Auditors also attend the Committee to present reports and to answer questions raised.
- 11) The Audit Committee includes both elected Councillors and two independent non-voting Members; Rick Plews and Beryl Seamens. These two individuals have brought considerable skills and external experience to the committee. It is noted that the Audit Committee have taken a number of steps to help them undertake their roles and responsibilities. This has included taking independent advice and training.

Annual Accounts

- 12) Those charged with governance (the Audit Committee) must approve the financial statements. In order to do this effectively, the Audit Committee obtains the necessary assurances to discharge this responsibility (for example assurances over the qualifications, experience and suitable numbers of key accountancy staff preparing the accounts, robust general ledger and key financial systems, adequate closedown planning, suitable QA processes).
- 13) The Director of Finance reviews these issues and reports upon the arrangements for the production of the Annual Accounts when he presents them at the appropriate time for sign off.
- 14) The Audit Committee review the accounts and question the Officers on items contained therein. Where additional information is requested, this has been provided to the committee promptly in a suitable form for discussion. In the current year the Audit Committee was satisfied with the arrangements and answers given when the accounts were presented. Additional information was requested and provided on section 106 Planning Income.
- 15) The External Auditors audit the accounts and present a report on their findings to the September Audit Committee prior to the accounts being finalised. This allows Members to have an independent opinion on the Accounts. Issues raised by the External Auditors are followed up by the Council Officers and progress is reported to the Audit Committee at appropriate intervals. The 2011/12 accounts were closed by the District Auditor within the required timescales. The External Auditors Annual Governance report 2011/12 was issued in September 2012 and the Annual Audit letter was issued in December 2012. This letter contained an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts; and concluded that the Council have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.
- 16) The External Auditors certify claims and annual returns. An annual report was provided to the Audit Committee in December 2012 which detailed their findings and opinions on the claims that they examined.

System of Internal Control

- 17) In March 2012 the Leader of Sheffield City Council signed off the revised Code of Corporate Governance. This Code of Corporate Governance sets out why good governance is important, explains how Sheffield City Council defines this, and tells how it will make sure that it takes place. This Code supports the work of the two key internal committees – Audit Committee and Standards Committee. This report was conveyed through the Council's website to all members, staff and the general public.

- 18) As part of the sign-off process for the Annual Governance Statement, the Directors are required to confirm in writing that they have in place adequate systems that ensure compliance with the relevant rules and legislation pertaining to their area of activity and this is used as a basis of the production of the statement. They also confirm that they are managing the risks pertaining to their service.
- 19) The Annual Governance Statement was presented to the Audit Committee in September 2012 following sign off by the Chief Executive and Council Leader. Updates on progress made against the items contained in the statement are provided to the Committee. The latest of these reports was presented to the Audit Committee in January 2013.
- 20) Internal Audit planning arrangements are designed to cover the significant risks of the Council and the plans are endorsed by the Audit Committee - the current plan was endorsed in May 2012. The new plan for 2013/14 and a revised process for audit planning arrangements are reported separately to this meeting (April 2013).
- 21) Although copies of all reports are not shared with the Committee, the Chief Internal Auditor would report on any serious breaches of control arrangements or where it is felt that management are not adequately dealing with matters of concern. A process has been devised which now ensures that the Audit Committee receive copies of all Internal Audit reports that are given a "high opinion". The members of the Audit Committee can then forward questions on these reports. The Chief Internal Auditor also submits to the Audit Committee twice yearly reports which show the actions that have been made by appropriate management in relation to the recommendations made (as supplied by the relevant service management). These reports came to the Committee in August 2012 and January 2013. These also showed the outcomes of any follow-up work which had been undertaken by Internal Audit in the intervening period.
- 22) The Chief Internal Auditor produces an independent annual report to the Audit Committee which highlights the work undertaken on the Council's control environment and his opinion on the control arrangements. This report came to the Committee in September 2012.

Governance Arrangements

- 23) As highlighted in para. 15 above the Council has reissued a revised Code of Corporate Governance in 2012 and the document will be reviewed and amended where appropriate every three years. This was presented to the Committee in May 2012.
- 24) This area is primarily the remit of the Council's Monitoring Officer, who provides reports to the Audit Committee on these issues.

- 25) A report on the Council's whistleblowing policy was presented to the Audit Committee in August 2012.
- 26) Reports were also delivered on the Financial/Commercial Monitoring of External Relationships in August 2012 and December 2012. A separate report on South Yorkshire Digital Region was also delivered to the Committee in September 2012.
- 27) An internal report regarding the governance arrangements in Marketing Sheffield was presented to the Committee in December 2012 and follow-up actions were reported to the January 2013 meeting and is included in the agenda for April 2012.
- 28) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement.

Counter Fraud Arrangements

- 29) Counter Fraud resources are allocated in the annual Internal Audit plan as presented to the Audit Committee in May 2012.
- 30) The Chief Internal Auditor's annual report presented to the Audit Committee in September 2012 contained a summary of Counter Fraud activity during 2011/12.
- 31) A "Protecting the Public Purse" report is on the agenda for the Audit Committee (April 2013) which summaries the National fraud activity identified by the Audit Commission survey, the number of investigations within the authority in 2011/12 and highlights the actions taken to mitigate potential fraud in order to give assurance to the Audit Committee.
- 32) Fraud awareness training has been provided across the Council and to Sheffield Homes. An E- Learning package has been developed and has been made available through the learning pool system.
- 33) Individual incidents of a material scale will continue to be reported to the Audit Committee by Internal Audit.
- 34) The Audit Committee can call in officers to respond to issues raised by the Audit Commission and/or Internal Audit.
- 35) A revised Fraud Response plan was agreed and made available via the Council's intranet in March 2012 to Members and staff. This document is primarily intended to act as a guide for managers who suspect that theft, fraud or corruption is occurring within the authority either via their own observations or via reports from an employee, contractor, partner or member of public.

- 36) The National Fraud Initiative (NFI) exercise for 2012/13 has taken place and work is on-going across areas of the Council to examine and investigate the output from the review.
- 37) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed.
- 38) Although considerable progress has been made in implementing fraud awareness across the council and the policies that underpin this, the process is still on-going. Key developments currently on-going are;
- A fraud risk management guide has been developed and made available on the intranet to aid managers in the identification and mitigation of fraud risk.
 - An anti-bribery policy has been developed.
 - The Authority has participated in a national pilot NFI data matching exercise involving Social Care Direct Payments. Work on the data match results will commence in April 2013.

Risk Management

- 39) A Corporate Risk Manager has been appointed (July 2012) to coordinate and drive Risk Management consistently across the Council.
- 40) The Corporate Risk Manager will present a report to the Audit Committee today (April 2013) on the risk management arrangements for the Council.
- 41) The Council's risk management framework has been made available on the intranet and training has been provided to all senior managers on its operation.
- 42) Risk reporting at a Corporate level has been strengthened and the Executive Management Team now receive quarterly Risk Management reports which focus on:
- The key transitional and longer term risks to delivery of the Council's strategic objectives and the effectiveness of the measures in place to deal with them.
 - An analysis of emerging national and local issues which are giving rise for concern and should be monitored closely as they may become risks.
- 43) It has been agreed that in future the Audit Committee will receive 6 monthly Risk Management reports to provide an update on the key issues

and enable challenge of the effectiveness of Risk Management processes and risk treatment actions.

- 44) In addition the need for greater member awareness and involvement in Risk Management has been identified. This will be achieved through facilitated Cabinet Members Team workshops and member briefings.
- 45) An improvement programme has been put in place through the establishment of a Council wide Risk Improvement & Development Group to achieve greater consistency in the way that risks are managed across the authority and to promote greater ownership and engagement with risk management processes.
- 46) As part of the improvement process:
 - A quality assurance assessment of Children and Young Peoples Families risk information has been carried out and recommendations for improvement made. This pilot is to be rolled out to other Portfolios.
 - Development of a Risk Management module for inclusion in the Core Manager Development Programme is underway.
 - The business case for a single risk management platform which links with the Council's existing Performance Management system is being assessed.

Recommendation

- 47) Members are asked to confirm that the above report gives an accurate reflection of the reports that they have received and considered throughout the year. Members are also asked to confirm that they now have a significant overview of the Council's systems of internal control so that they are assured that they are fulfilling the requirements of "those charged with governance" under the Internal Auditing Standards.

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REPORT OF	Assistant Director Finance – Business Partnering and Internal Audit	DATE
		17/4/2013

SUBJECT	The new ‘Public Sector Internal Auditing Standards’ (PSIAS), which become mandatory on the 1st April 2013.
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SUMMARY	<p>This report summarises the content of the Public Sector Internal Auditing Standards and highlights the new requirements and how these apply in the public sector. It also explains the current functional arrangements in place in SCC’s Internal Audit Service, together with additional work required to ensure compliance with the standard.</p>
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RECOMMENDATIONS

That members note the differences between the new Public Sector Internal Auditing Standards and the CIPFA Code of Practice.

That members note where the SCC approach is different from the Standard

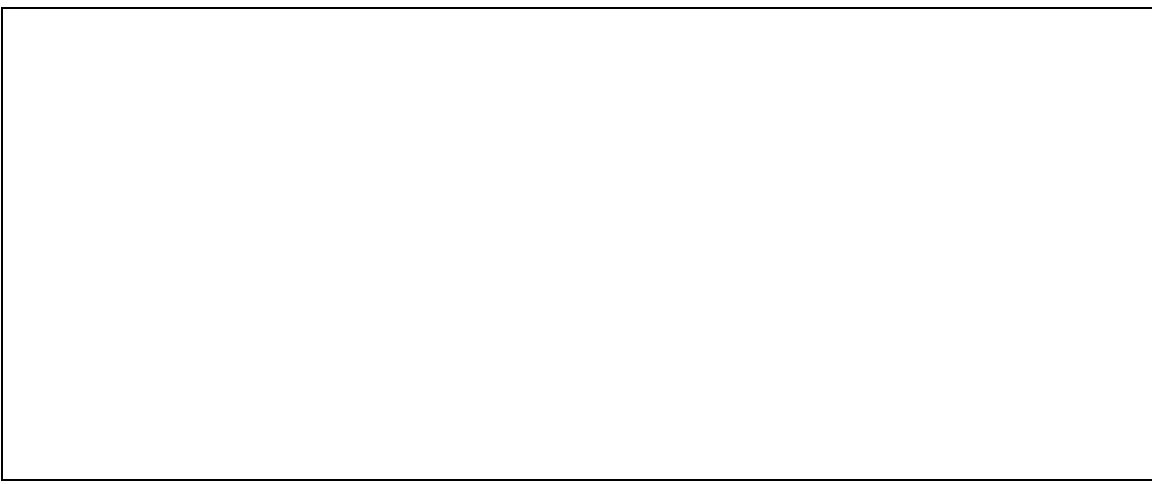
That members endorse the work to be undertaken to ensure compliance with the PSIAS.

That members receive a further report of progress made with compliance in 6 months’ time.

FINANCIAL IMPLICATIONS CLEARED BY	No Laura Pattman	PARAGRAPHS
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BACKGROUND PAPERS

CONTACT POINT FOR ACCESS	Laura Pattman	TEL NO. 273 5763
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CATEGORY OF REPORT

Open

Statutory and Council Policy Checklist

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

REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE
17th April 2013

Assistant Director of Finance Report – Public Sector Internal Audit Standards (PSIAS)

PURPOSE OF THE REPORT

1. This report summarises the content of the PSIAS and highlights where there are new requirements and how these will apply in the public sector.
2. It also explains the current functional arrangements in place in SCC's Internal Audit Service, together with additional work required to ensure compliance with the PSIAS.

BACKGROUND

3. The **Public Sector Internal Audit Standards (PSIAS)** come into force on 1 April 2013, and aim to promote further improvements in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
4. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adapted for the public sector.
5. The PSIAS replace the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006*. Sheffield City Councils' Internal Audit service currently complies with the requirements of the CIPFA Code of Practice, and this is referred to in the Job Descriptions of all auditors.
6. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011, the Accounts and Audit (Wales) (Amended) Regulations 2010, Section 95 of the Local Government (Scotland) Act 1973, and Section 54 of the Local Government Act (Northern Ireland) 1972.
7. The PSIAS refer to a post of 'Chief Audit Executive'. Within Sheffield City Council this is deemed to be the post of Senior Finance Manager (Internal Audit). The Chief Audit Executives are expected to report conformance on the PSIAS in their annual report. Any instances where an authority takes a different approach to the standard should be reported. Any significant variations must be considered for inclusion in the Annual Governance Statement.

Summary of the Standards

8. The PSIAS contains :

Section 1 – Introduction

Section 2 - Applicability

Section 3 – Definition of Internal Audit (changed slightly from that included in the CIPFA Code of Practice)

Section 4 – Code of Ethics (in line with the CIPFA Code of Practice)

Section 5 – Standards – split into Attribute Standards and Performance Standards. (broadly in line with the CIPFA Code of Practice)

Requirements of the PSIAS

Attribute Standards

1000 – Purpose, Authority and Responsibility

9. The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. This document should establish the internal audit activity's position within the organisation, including the nature of the 'Chief Audit Executives' functional reporting relationship with the board; authorises access to records, personnel and property relevant to the performance of engagements and defines the scope of internal audit activity. It must also cover arrangements for appropriate resourcing, and defining the role of internal audit in fraud-related work.
10. The Internal Audit Charter must define the terms 'board' and 'senior management'. The 'board' in the case of SCC will either be the Executive Management Team or the Audit Committee depending upon the standard being considered.

Current Arrangements in Internal Audit

11. The Internal Audit Charter and Terms of Reference cover most of the above however this needs to be reviewed and updated to reflect the new reporting arrangements to be implemented from April 2013.

1100 – Independence and Objectivity

12. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner. To achieve the degree of independence necessary, the CAE must have direct and unrestricted access to senior management and the board.
13. The CAE must report functionally to the board, and establish effective communication with the Chief Executive and Chair of the Audit Committee.
14. Examples of functional reporting to the board involve the board;
 - Approving the IA Charter
 - Approving the risk-based internal audit plan;
 - Approving the internal audit budget and resource plan;
 - Receiving communications from the CAE on the internal audit activity's performance
 - Approving the remuneration of the chief audit executive
15. Governance arrangement in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. This can be achieved by ensuring the Chief Executive (or equivalent) undertakes countersigns or contributes feedback to the performance appraisal of the CAE.

Current Arrangement in Internal Audit

16. The CAE reports functionally to the Assistant Director of Finance rather than to a member of the Executive Management Team. This arrangement has been endorsed by the Director of Finance and the Executive Director, Resources.
17. There are no barriers to reporting audit issues corporately when the need arises.
18. Approval for the plan and budgets currently sits with the Director of Finance, and reports on audit activity are made to the Audit Committee on, at least, a quarterly basis.
19. The remuneration of the CAE is determined in line with Council-wide HR procedures and standard pay structures.

1200 – Proficiency and Due Professional Care

20. Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity

collectively must possess or obtain the knowledge, skills and other competencies required.

Current Arrangement in Internal Audit

21. 3 members of staff are Consultative Committee of Accountancy Bodies (CCAB) qualified, 3 are studying CCAB, 2 are Chartered Members Institute of Internal Auditors (CMIIA), 2 are Practitioner Institute Internal Auditors (PIIA), 1 officer holds the Institute of Internal Auditors IT Auditing Certificate, 1 holds Professionalism in Security (PINS) and 3 are Associate of Accounting Technicians (AAT) qualified. All auditors are appraised annually.

1300 – Quality Assurance and Improvement Programme

22. The CAE must maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This should enable an evaluation of the internal audit activity's conformance with the PSIAS.
23. The quality assurance and improvement programme must include both internal and external assessments. External Assessments must be undertaken every 5 years by a qualified, independent assessor /assessment team from outside the organisation.
24. The CAE must communicate the results of the quality assurance and improvement programme to senior management and the board, in the annual report. Instances of non-conformance must be reported to the board.

Current Arrangement in Internal Audit

25. This is a new requirement and currently there are no arrangements for an independent external assessment to be undertaken. As part of the External Audit work programme for 13/14, a review of Internal Audit is to be carried and the feasibility of 'peer reviews' within the Core Cities Chief Auditors Group are actively being considered and developed.
26. Internal Assessments to monitor the on-going performance of Internal Audit are already carried out on a quarterly basis. The periodic assessment of compliance with the PSIAS will be incorporated into the annual 'quality audit' using a self-assessment methodology.

Performance Standards

27. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.
28. This section of the PSIAS includes :

- Managing the internal audit activity – the CAE must effectively manage the internal audit activity to ensure it adds value to the organisation.
 - Nature of the work – the internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.
 - Engagement planning – Internal Auditors must develop and document a plan for each engagement, including the engagements objectives, scope, timing and resource allocations.
 - Performing the engagement – Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement objectives.
 - Communicating results – Internal auditors must communicate the results of engagements.
 - Monitoring progress – The CAE must establish and maintain a system to monitor the disposition of result communicated to management through effective follow-up processes.
 - Communicating the acceptance of risks – When the CAE concludes that management are accepting unacceptable levels of risk, this must be discussed with senior management, and reported to the board if it is not satisfactorily resolved.
29. There are no fundamental differences between the new PSIAS Performance Standards and the CIPFA Code of Practice and therefore the current arrangements are considered to be satisfactory.
30. The attached table summarises the new requirements and any work required to be undertaken by Internal Audit to ensure compliance with the standards.

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.

RECOMMENDATIONS

That members note the differences between the new PSIAS and the CIPFA Code of Practice.

That members note where the Sheffield City Council approach is different from the Standard.

That members endorse the work to be undertaken to ensure compliance with the PSIAS.

That members receive a further report of progress made with compliance in 6 months' time.

Laura Pattman
Assistant Director of Finance

Ref	Requirement	Local Procedure	Work Required
1000	Produce a formal document that defines the internal audit activity's purpose, authority and responsibility.	This is currently included in the Internal Audit Charter and Terms of Reference.	Amalgamate and update the Internal Audit Charter, Terms of Reference and Protocol into a single Charter. Define 'the Board', Senior Management, and Chief Audit Executive.
1100	The CAE must report functionally to the board, in this case the Executive Management Team.	Due, in part to the current economic climate and budget cuts, the CAE reports to the Assistant Director of Finance. However there are no barriers to reporting audit issues corporately when the need arises. Approval for the plan and budgets currently sits with the Director of Finance.	Declaration of Endorsement of reporting arrangements from Executive Director of Resources and/or Chief Executive to be updated and retained. Declaration of reporting arrangements to be included in the CAE annual report on compliance with the PSIAS.
1100	Establish effective communication with the Chief Executive and Chair of Audit Committee.	Already in Place	Declaration of Endorsement of reporting arrangements from Director of Resources and/or Chief Executive to be updated and retained.
1110	The remuneration of CAE to be approved by the board.	Remuneration is determined in line with formal pay structures	Include arrangements for determining remuneration of CAE in

	The Chief Executive (or equivalent) carries out, countersigns or contributes feedback to the performance appraisal of the CAE. Feedback is also sought from the Audit Committee Chair.	and HR Policies and Procedures. The CAE will be appraised in line with the Corporate Process by the Assistant Director of Finance.	annual report. Seek feedback from the Audit Committee Chair and Director of Finance to contribute to the performance appraisal of CAE.
1311	Undertake Internal Assessments as part of the quality assurance and improvement programme.	Ongoing monitoring of performance and output is already undertaken and reported. Quality Audits, undertaken annually, in line with BSI standards.	The scope of the Internal Quality Audits is to be reviewed to include compliance with the PSIAS.
1312	External Assessment of Compliance with PSIAS every 5 Years, by a qualified, independent assessor/assessment team.	External Audit has scheduled a review of Internal Audit into their 2013/14 work programme.	Explore possibility of a cycle of peer reviews with Core City Authorities, on a cyclical basis.

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Audit Committee Report

REPORT OF Assistant Director Finance – Business Partnering and **DATE**
Internal Audit
17/4/2013

SUBJECT Delivering Internal Audit Activity Progress Report

SUMMARY The attached is the progress report on Delivering Internal Audit Activity.

RECOMMENDATIONS To note the contents of the Report

FINANCIAL IMPLICATIONS	No	PARAGRAPHS
CLEARED BY	K.Inman	8

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS	K.Inman	TEL NO.
		273 5608

CATEGORY OF REPORT

Open

Statutory and Council Policy Checklist

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

REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE

April 2013

Chief Internal Auditors Report – Delivering Internal Audit Activity Report.

Purpose of the Report

1. The purpose of this report is to present and communicate to members of the Audit Committee progress made against the 'new' auditable areas introduced for the 2012/13 audit plan.
2. In addition, the report includes a summary of other Internal Audit output issued during 2012/13.

Introduction

3. In light of the budget reductions the strategy and approach for the 2012/13 audit plan was changed and communicated to members of the Audit Committee at the May 2012 meeting.
4. This report provides a progress update on the audits delivered during the year.

Progress

5. The strategy for Internal Audit work was to focus on some specific areas of activity which could provide assurance that risk and internal control issues are being properly managed by Directors in service areas. These areas were largely the main corporate systems in operation across the council such as risk management, performance management and the Annual Governance Statement.
6. This report will also feedback to members on the portfolio specific output issued by Internal Audit throughout 2012/13 classified by the assigned audit opinion. The full list of outputs is recorded in Appendix A, with the main corporate systems separately identifiable at the end of each section.
7. It should be noted that there is still some 'work-in-progress' on both the corporate and portfolio audits as at the 31.3.2013. These will be reported in the next progress update report.

Conclusion

8. The corporate system audits completed have largely been assigned a medium-low or low audit opinion, which provides assurance that risk and internal control issues are being adequately managed.

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.

Kayleigh Inman
Senior Finance Manager (Internal Audit)

All Internal Audit Output with the Opinion
1st April 2012 – 31st March 2013

Appendix A

The purpose of this report is to detail the output produced by Internal Audit for the above period.

The report is split into the opinions and lists the title of each review only; Full copies of the high opinion audit reports have already been submitted to the Audit Committee. This report also details the work undertaken by the service where an audit opinion is not required.

The audits annotated with b/fwd are reviews which were in progress at the financial year end (11/12) and so are not reviews that are included in the 2012/13 tactical plan.

High Opinion

The risk of the activity not achieving its objectives is **high**. Internal Audit's overall opinion is that controls to manage the operational risks are not present or ineffective.

Register Office, Deputy Chief Executive
Marketing Sheffield, Place

Medium – High Opinion

The risk of the activity not achieving its objectives is **medium - high**. Internal Audit's overall opinion is that controls to manage the operational risks are inadequate or operating poorly.

Starters and Leavers (including Voluntary Severance/Voluntary Early Retirement, Resources (b/fwd)
Fire Risk Assessment Team, Sheffield Homes (b/fwd)
Housing Benefits Applications and Assessments (b/fwd)
Highways Maintenance PFI – Exit Strategy-Client Model, Place (b/fwd)
Adults Out-of-City Placements, Communities (b/fwd)
IT Asset Management CMBD and Chargeback, Resources (b/fwd)
Managing Employee Reductions – IT Issues, Resources (b/fwd)
Third Party Agreements for Bidding and Business Cases (b/fwd)
OEO Ledger Reconciliation (b/fwd)
Safeguarding in Schools, CYPF (b/fwd)
Telecommunications, Resources
Easysite – Website, Resources
Corporate Vision Strategy, Deputy Chief Executives
Trading Standards, Place

Use of Consultants, Resources
 Information Governance, Resources
 Time Monitoring (Overtime), Resources
 Framework Agreement, Communities
 Joint Health Commissioning Group – Governance Arrangements, CYPF.
 Social Care Accounts Service, Communities
 Banking Arrangements in Schools, CYPF
 Financial Management Standard – Protecting Public Money, CYPF
 Marketing and Economic Strategies for Sheffield Arena, Place
 Capital Delivery, Place
 Park Hill, Place
 Main Financial Systems – Corporate Asset Register Management, Resources
 Main Financial Systems – Debtor Controls, Resources
 Main Financial Systems – National Non-Domestic Rates (NDR) System,
 Resources

 Contract Waivers, Resources
 Overarching Review of External Relationships, Resources

Medium – Low Opinion

The risk of the activity not achieving its objectives is **medium - low**.
 Internal Audit's overall opinion is that the controls to manage the operational risks are mostly in place but there are some weaknesses in their operation.

Private Housing Standards Enforcement, Communities (b/fwd)
 Housing Benefit Data Security (b/fwd)
 Managing Employee Reductions, Resources (b/fwd)
 Prevention and Early Intervention Services, CYPF (b/fwd)
 Disability Respite Homes, CYPF (b/fwd)
 Special Educational Needs – Family of Schools Pilot, CYPF (b/fwd)
 Waste Contract Management – Fraud Risk Review (b/fwd)
 Access to Systems using IDEA, Resources (b/fwd)
 Remote Working (including RAS and Members IT), Resources
 IKEN – Legal Services Caseload Management, Deputy Chief Executive
 Workplace Programme, Resources
 OHMS (Housing Management System)
 Banks Automated Clearing System, Resources
 Housing Strategy, Place
 Self-Directed Support Programme – Operational Controls, Communities
 Sheffield Galleries and Museums Trust, Place
 South Yorkshire Archives, Communities
 South Yorkshire Archaeology, Place
 Community Cohesion, Communities
 Future of Council Housing, Communities
 Building Standards, Place
 Responsive Repairs, Sheffield Homes

Homelessness, Communities
CCTV Service, Resources
Secondary School Standards, CYPF
Commercial Service Review, Resources
Voluntary Sector Grant Aid Process, Deputy Chief Executive
Public Health Transfer, Communities
Planning Arrangements for Academy Transfers, CYPF
City Wide Learning Body, CYPF
Members Interests', Deputy Chief Executive
Main Financial Systems - Purchase to Pay Audit Review 11-12 (b/fwd)
Main Financial Systems – Council Tax System 12-13, Resources
Main Financial Systems - Financial Processes in Sheffield Homes

Annual Governance Statement (AGS) - Process Overview
Annual Governance Statement - Data Quality Checks
Annual Governance Statement - Reporting and Escalation Process
Capital Schemes Reviews – Ongoing Schemes, Resources
Kier KAPS – Performance Management and Governance Arrangements,
Resources
Risk Performance in Key Partnerships, Resources
Performance Management Framework - Performance Plus System Overview
Performance Management Framework - Quality Assurance Processes
(CYPF)
Projects and Programmes – Governance and Overarching Strategy
Projects and Programmes – Programme Delivery, Communities
Risk Management, CYPF (b/fwd)
Risk Management, Communities

Low Opinion

The risk of the activity not achieving its objectives is **low**.
Internal Audit's overall opinion is that controls to manage the operational risks are in place and operating effectively.

Business Planning, Sheffield Homes (b/fwd)
Main Financial Systems – Financial Reporting Place
Main Financial Systems - Sheffield Homes Financial Robustness

Performance Management Framework – Reporting and Escalation Process,
Place
Performance Management Framework – Service Business Planning,
Communities
Performance Management Framework – Business Planning Process
Overview, Deputy Chief Executive
Performance Management Framework – Use of Performance Information

Annual Governance Statement – Statement Production
Annual Governance Statement – Use of AGS information

Productive Pieces of Work – No Opinion Required

Counter-Fraud Proactive – Protecting the Public Purse Report 10-11
Annual Report – School Themed Reviews
National Fraud Initiative – Preparation and Co-ordination
National Fraud Initiative – Direct Payment Pilot
Fraud Awareness e-learning launched.
Communities Recommendation Tracking
CIA Annual Report

Grant Certifications

Housing Market Renewal – Growth Fund Exit Work
Carbon Reduction Commitment Compliance Check
Growing Places Grant

Follow-up Audits

Equalities Statutory Duties, Deputy Chief Executive
Performance Monitoring Process, Deputy Chief Executive
Building Security Central, Resources
Decent Homes Client, Place
Kier Transactions Testing, Place
Libraries, Place
Debt Management, Place
Risk Management, Place
Self-Directed Support Programme, Communities
Information Management for Community Care, Communities
Out-of-Hours Service, Communities
Transition from Children Services to Adult Services, Communities
Quality in Residential Care Homes, Communities
Critical Incident Planning, CYPF
Cash Handling Appointees, Communities
PCI-DSS Payment Card Identify Controls, Resources
Highways PFI, Place
Youth Commissioning – Sheffield Futures

Investigations

Urban Traffic Cameras
Meade House Cash Controls
Praise Pod

11 Housing/Council Tax Benefit cases closed.
24 Non Housing/Council Tax Benefit cases closed.

AUDIT COMMITTEE REPORT

17 APRIL 2013

ANNUAL AUDIT FEE LETTER 2013/14
Report of the John Prentice, Director,
KPMG.

KPMG LLP
Audit
1 The Embankment
Neville Street
Leeds LS1 4DW
1 The Embankment
United Kingdom

Tel +44 (0) 113 231 3508
Fax +44 (0) 113 231 3200
DX 724440 Leeds
john.prentice@kpmg.co.uk

Mr J Mothersole
Chief Executive
Sheffield City Council
Town Hall
Pinstone St
Sheffield
S1 2HH

Our ref

20 March 2013

Dear John

Annual audit fee 2013/14

I am writing to confirm the audit work and fee that we propose for the 2013/14 financial year at Sheffield City Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission.

As we have not yet completed our audit for 2012/13 the audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative audit and certification fees for 2013/14 are shown below. All fees are subject to VAT.

Audit area	Planned fee 2013/14	Planned fee 2012/13
Code of Audit Practice audit fee – Sheffield City Council	247,860	247,860
Certification of grant claims & returns	36,118	38,300

The audit fee is unchanged from the planned fee for 2012/13, and is in line with the scale fee recommended by the Audit Commission.

The Audit Commission has calculated the composite indicative fee for the certification of grant claims and returns. This is based on the Council requiring specific grants claims and returns to be certified. I will write to you later this year with more details on our certification work.

The indicative fees are 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. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the 2012/13 audit. A more detailed audit plan will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Executive Director of Resources and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of Sheffield City Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

The key members of our audit team for the 2013/14 audit are:

Name	Role	Contact details
David Phillips	Senior Manager	david.phillips@kpmg.co.uk 0114 205 3055 or 0113 231 3623
Stuart Cutts	Assistant Manager	stuart.cutts@kpmg.co.uk 0113 231 3366

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

ABCD

KPMG LLP
Annual audit fee 2013/14
20 March 2013

Yours sincerely

John Prentice
Director

cc: Laraine Manley, Executive Director Corporate Resources
Eugene Walker, Director of Finance

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- where we intend to rely on controls within key financial systems, internal audit undertakes appropriate work on those systems sufficient that we can place reliance for the purposes of our audit;
- you will identify and successfully implement any changes required under the CIPFA IFRS-based Code of Practice on Local Authority Accounting within your 2013/14 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *Prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations eg arising from disclosures under the Public Interest Disclosure Act 1998. Please note that there were two formal objections relating to your 2011/12 accounts, which resulted in additional work by us. We cannot yet know whether there will be questions or objections relating to your 2013/14 accounts.

Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
External audit plan	January 2014
Interim audit report	June 2014
Report to those charged with governance (ISA260 report)	September 2014
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2014
Opinion on Whole of Government Accounts return	September 2014
Annual audit letter	November 2014
Certification of grant claims and returns	December 2014

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 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 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.

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Audit Committee Report

Report of: Laraine Manley

Date: Wednesday 17th April 2013

Subject: Response to Audit Commission Reports

Author of Report: Allan Rainford, ext 35108

Summary: This report provides an update on the progress made in respect of recommendations raised by the Audit Commission in its report presented to the Audit Committee on 15 May 2012 entitled "Certification of claims and returns – annual report".

Recommendations: Members are recommended to note the report.

Background Papers: None

Category of Report: OPEN/CLOSED*

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

* Delete as appropriate

Statutory and Council Policy Checklist

Financial Implications
NO – there are no direct financial implications as a result of this report
Legal Implications
NO
Equality of Opportunity Implications
NO
Tackling Health Inequalities Implications
NO
Human rights Implications
NO
Environmental and Sustainability implications
NO
Economic impact
NO
Community safety implications
NO
Human resources implications
NO
Property implications
NO
Area(s) affected
Not applicable
Relevant Cabinet Portfolio Leader
Bryan Lodge
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
NO

Response to Audit Commission Reports

Introduction

1. The Audit Committee on 15 May 2012 considered a report from the Audit Commission entitled “Certification of claims and returns – annual report”. The report contained four recommendations relating to the processing of housing benefit claims and the procedure for preparing other financial claims and returns. The Committee requested that a further report be submitted on the progress made on implementing the recommendations.
2. The Audit Committee on 26 September 2012 approved the Statement of Accounts for 2011/12 and accepted the Annual Governance report of the External Auditor. The latter Report included details of the results of the audit and identified internal control issues that Officers were recommended to address.
3. This report provides an update on the progress made in respect of recommendations.

Actions taken by Officers

4. The attached schedule sets out the recommendations and issues highlighted in the reports from the Audit Commission. It shows the actions reported at that time and the progress made to date in terms of the implementation of recommendations.
5. All the recommendations have been implemented. The recommendation relating to reconciliation of the credit clearing account is more than a reconciliation issue: it relates to the management of payments received by the Council which do not have a recognisable reference number. This is an on-going issue which is being reviewed as part of the implementation of the new income management system (AIM) and will involve further system and procedure adjustments.

Recommendations

6. Members are recommended to note the report.

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Recommendations in Certification of claims and returns 2010/11

Recommendation	Agreed Action	Date for Implementation	Progress to date/current position	Responsible Officer
<p>Housing and Council Tax Benefit Scheme: The Authority should undertake further quality control checks aimed at minimising errors on backdated claims</p>	<p>The Authority will continue to undertake quality control checks: this forms part of the Authority's statutory 10% checking of the contractors decisions.</p>	<p>Ongoing</p>	<p>Checks are in place as agreed.</p> <p>These are quality control checks undertaken by the Council's Revenues and Benefits Client Team who will, on a sample basis, review</p> <p>a) the date of HB claim to make sure it has been recorded correctly and</p> <p>b) the reasons why backdating has been awarded to ensure that 'good cause' has been shown for a claimant's failure to claim at an earlier date.</p> <p>However, it should be noted that although the accurate reporting of 'backdated' claims is useful for monitoring purposes, processing errors identified by the audit do not have any negative financial consequences for claimants or the authority.</p>	<p>Jon West, Senior Finance Manager</p>

<p>Housing and Council Tax Benefit Scheme: The Authority should continue to monitor regulated tenancies cases to ensure that their incorrect identification on Academy does not re-occur</p>	<p>The Authority will continue to monitor regulated tenancies cases to ensure they are correctly identified on Academy</p>	<p>Ongoing</p>	<p>Monitoring of HB claims is in place as agreed to ensure incorrectly recorded cases continue to be identified and corrected.</p> <p>Monitoring takes the form of quality control checks undertaken by the Council's Revenues and Benefits Client Team who will, on a sample basis, review the classification of a claimant's tenancy to ensure it is being recorded correctly.</p> <p>In this case, this means checking that only tenancies created before 1989 have been classified as regulated tenancies.</p> <p>It is worth noting that although the accurate recording of regulated tenancies is useful for monitoring purposes, they are rare and any classification errors identified by the audit do not have any negative financial consequences for claimants or the authority.</p>	<p>Jon West, Senior Finance Manager</p>
<p>The Authority should ensure that Officers responsible for preparing returns are provided with sufficient guidance and</p>	<p>The Officers involved in the preparation and review of the Pooling of Capital Receipts</p>	<p>Completed May 2012</p>	<p>By May 2012, the Officers involved in the preparation and review of the Pooling of Capital Receipts Return had read all relevant guidance in</p>	<p>Clair Sharratt – Finance Manager</p>

<p>training in grant scheme terms and conditions. Internal review should be undertaken by Officers with appropriate expertise and knowledge of the scheme.</p>	<p>Return have accessed detailed guidance on the relevant terms, conditions and regulations.</p> <p>The Officers will apply the knowledge and expertise gained in the preparation and review of the 2011/12 return</p>	<p>30 June 2012</p>	<p>advance of completing the 2011/12 return.</p> <p>This was completed by June 2012.</p>	
<p>The Authority should ensure that a complete audit trail is maintained as evidence that contracts are let in accordance with the relevant procurement requirements.</p>	<p>The External Funding Team will liaise with Project Managers to ensure that a complete audit trail is maintained in future.</p>	<p>30 June 2012</p>	<p>Financial Regulations have been revised to reflect the need for Project Managers to follow procurement rules and ensure that all grant documentation is retained.</p> <p>A check list for completion by Project Managers of documents required to support and substantiate each grant claim submitted was issued by 30 June 2012. Project Managers are now required to complete a declaration that procurement rules have been followed and documentation retained.</p>	<p>Andy Morton – Finance Manager</p>

Recommendations in External Audit Annual Governance Report 2011/12 relating to reconciliations

Description of weakness	Management action reported at the time	Current Position
<p>Completion of the bank reconciliations for the Credit Clearing bank account which as at 5 July 2012 had not been completed since the October 2011 month end.</p>	<p>Officers were aware that this reconciliation was behind schedule, due to the loss of experienced staff. The November and December 2011 reconciliations were completed by July 2012 and Officers hope to complete the 2011/12 year end reconciliation by September 2012.</p>	<p>The majority of payments to the Council are paid into a "Credit Clearing Account" at the Bank. However up to 30,000 transactions per year do not contain sufficient information to enable them to be recorded to the correct place: i.e. to council tax, business rates, sundry debt income, benefit repayments, grant payments, sale of assets, etc. Also some payments are for more than one amount due and this presents difficulties in terms of disaggregation and allocation.</p> <p>The Income Management system (AIM) that was introduced in November 2012 will allocate payments in the general ledger but those "unallocated payments" are held in a control account and are periodically reconciled to the amounts left in the "Credit Clearing Account" at the bank.</p> <p>However the real task is to clear these amounts to zero by identifying the nature of the payment and to allocate</p>

		<p>this to the correct place. To assist in this, a review has been carried out with external advice to identify the reconciliation requirements and to recommend improvements in the process. As a result, the formal reconciliations process has been reinstated and is now routinely followed (on a monthly basis).</p> <p>Regular meetings are taking place involving the team responsible for bank reconciliation and the team responsible for the income management system so that unallocated payment issues can be resolved. Further work will be undertaken to review the operation of AIM and to identify system improvements to automate the process as far as possible.</p>
<p>Reconciliation of the Council Tax and Business Rate systems to the general ledger. Neither system was reconciled during 2011/12.</p>	<p>Officers have prepared 2011/12 year end reconciliations for both systems.</p>	<p>During 2012/13 a monthly reconciliation of the Council Tax system has been prepared for the period October 2012 to February 2013 and a year-end reconciliation is to be prepared, as per the Closedown timetable, by 10th April 2013.</p>

		A monthly reconciliation of the NNDR system has also been prepared over the same period with discrepancies, which are currently being investigated. Again, a year-end reconciliation will be prepared by 10th April 2013.
Council Officers complete test checks over purchase ledger masterfile amendments. These checks were not promptly performed during 2011/12, being about two months behind schedule at times during the years.	<p>Officers assigned additional resources and succeeded in getting the checks up to date for the end of May 2012. However we understand that further staffing losses in the 2012 summer restructure has meant that the timetable has slipped again.</p> <p>During 2012/13 the Council is implementing a new supplier portal as part of its e-procurement package. We understand that this portal will remove the need for this check.</p>	<p>Regular test checks on masterfile amendments are being carried out within the Financial Systems & Support Team. No issues have been identified as part of the checks.</p> <p>This will continue until the MyBuy system has been introduced when the management of the Council's purchase to pay arrangements become the responsibility of Commercial Services.</p>

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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Audit Committee Report

Report of: Director of Legal Services

Date: 17 April 2013

Subject: Work Programme

Author of Report: Dave Ross

Summary:

The report provides details of a proposed draft work programme for the Committee for 2013/14 and Members are requested to identify any further issues for inclusion.

Recommendations:

That the Work Programme is approved.

Background Papers:

Category of Report: OPEN

Statutory and Council Policy Checklist

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

WORK PROGRAMME

1. Purpose of Report

1.1 To consider an outline work programme for the Committee for 2013/14.

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 An outline programme for 2013/14 is set out below. Members are asked to identify any further items for inclusion. Following the Annual Council Meeting in May 2013, there will be further discussion on the Work Programme with members of the Committee and officers.

Date	Item	Author
July 2013	Annual Governance Statement	Lynne Bird (Director of Legal and Governance)
July 2013	Summary of the Statement of Accounts	Allan Rainford (Deputy Director of Finance)
July 2013	Audit Committee Annual Report	Dave Ross (Legal and Governance)
July 2013	Progress report on the High Opinion Audit reports	Laura Pattman (Asst Director Finance, Business Partnering CYPF and Internal Audit)
July 2013	Independent Member Recruitment	Dave Ross (Legal and Governance)
July 2013	Financial/Commercial Monitoring of External Relationships - Progress Report	Eugene Walker (Director of Finance)/Andrew Kidder (Finance Manager)
September 2013	Annual Governance Statement	Lynne Bird (Director of Legal and Governance)
September 2013	Annual Governance Report	John Prentice (Director,

		KPMG)
September 2013	Statement of Accounts	Allan Rainford (Deputy Director of Finance)
September 2013	Chief Internal Auditor's Annual Report	Laura Pattman (Asst Director Finance, Business Partnering CYPF and Internal Audit)
November 2013	Annual Grants Report 2012/13	John Prentice (Director, KPMG)
November 2013	Financial/Commercial Monitoring of External Relationships - Progress Report	Eugene Walker (Director of Finance)/Andrew Kidder (Finance Manager)
January 2014	Annual Audit Letter	John Prentice (Director, KPMG)
January 2014	Progress report on recommendations from the External Auditor's Annual Governance Report	Allan Rainford (Deputy Director of Finance)
January 2014	Annual Governance Statement Progress Report	Lynne Bird (Director of Legal and Governance)
January 2014	Progress on the High Opinion Audit reports	Laura Pattman (Asst Director Finance, Business Partnering CYPF and Internal Audit)
January 2014	Review of the operation of the new Internal Audit structure	Laura Pattman (Asst Director Finance, Business Partnering CYPF and Internal Audit)
January 2014	Financial/Commercial Monitoring of External Relationships - Progress Report	Eugene Walker (Director of Finance)/Andrew Kidder (Finance Manager)
March/April 2014	Audit Opinion Plan	John Prentice (Director, KPMG)
March/April 2014	Corporate Risk Management	Richard Garrad (Corporate Risk Manager)
March/April 2014	Internal Audit Plan 2014/15	Laura Pattman (Asst Director Finance, Business Partnering

		CYPF and Internal Audit)
March/April 2014	Audit Commission Report on Protecting the Protecting the Public Purse/Update on Counter fraud initiatives	Laura Pattman (Asst Director Finance, Business Partnering CYPF and Internal Audit)
March/April 2014	International Auditing Standards – Compliance with Internal Control/counter Fraud	Laura Pattman (Asst Director Finance, Business Partnering CYPF and Internal Audit)
March/April 2014	Annual Audit Fee Letter 2014/15	John Prentice (Director, KPMG)

To be arranged:

- Council's approach to value for money

3. **Recommendation**

- 3.1 That the Committee's outline Work Programme for 2013/14 is approved.

Director of Legal and 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.

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