Audit Committee

Thursday 10 April 2014 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), Joe Otten (Deputy Chair), Anders Hanson, Steve Jones, Martin Lawton and Sioned-Mair Richards.

Independent Co-opted Members

Rick Plews and Liz Stanley.

Sheffield
City Council

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. You may not be allowed to see some reports because they contain confidential information. These items are usually marked * on the agenda.

Recording is allowed at Audit Committee meetings under the direction of the Chair of the meeting. Please see the website or contact Democratic Services for details of the Council's protocol on audio/visual recording and photography at council meetings.

If you require any further information please contact Dave Ross in Democratic Services 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
10 APRIL 2014

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.

   (Note: The report on Strategic Risk Management/Corporate Risk Register 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, relating to the financial or business affairs of any particular person, including the authority holding that information).

4. **Declarations of Interest** (Pages 1 - 4)
   Members to declare any interests they have in the business to be considered at the meeting.

5. **Minutes of Previous Meeting** (Pages 5 - 8)
   To approve the minutes of the meeting of the Committee held on 9 January 2014.

6. **External Audit Plan 2013/14** (Pages 9 - 34)
   Report of the Director, KPMG.

7. **Annual Audit Fee Letter 2014/15**
   The Director, KPMG to report.

8. **Internal Audit Plan 2014/15** (Pages 35 - 74)
   Report of the Assistant Director of Finance, Business Partnering and Internal Audit.

9. **Progress on High Opinion Audit Reports** (Pages 75 - 114)
   Report of the Assistant Director of Finance, Business Partnering and Internal Audit.

10. **Protecting the Public Purse Annual Fraud Report** (Pages 115 - 140)
    Report of the Assistant Director of Finance, Business Partnering and Internal Audit.

11. **Compliance with International Auditing Standards** (Pages 141 - 150)
    Report of the Assistant Director of Finance, Business Partnering and Internal Audit.

12. **Strategic Risk Management** (Pages 151 - 182)
Report of the Interim 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, relating to the financial or business affairs of any particular person, including the authority holding that information).

13. **Work Programme** (Pages 183 - 190)
Report of the Director of Legal and Governance.

14. **Date of Future Meetings**
Note that, subject to approval at the Annual Council Meeting on 4 June, meetings of the Audit Committee will be held on the following dates at 6.00 p.m.

- 17 July 2014
- 25 September 2014
- 13 November 2014
- 11 December 2014
- 8 Jan 2015
- 12 February 2015
- 12 March 2015
- 9 April 2015

ADVICE TO MEMBERS ON DECLARING INTERESTS AT MEETINGS

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 <u>not</u>:

- 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.

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 (selflessness; integrity; objectivity; accountability; openness; honesty; and leadership).

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 DPIs 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.

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 Gillian Duckworth, Interim Director of Legal and Governance on 0114 2734018 or email gillian.duckworth@sheffield.gov.uk.

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SHEFFIELD CITY COUNCIL

Audit Committee

Meeting held 9 January 2014

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

Co-opted Independent Members
Rick Plews and Liz Stanley.

Officers in attendance
John Mothersole (Chief Executive), Laraine Manley (Executive Director, Resources), Eugene Walker (Director of Finance), Laura Pattman (Assistant Director of Finance, Business Partnering and Internal Audit) Kayleigh Inman (Senior Finance Manager, Internal Audit), David Phillips (Senior Manager, KPMG), Lynne Bird (Director of Legal and Governance) and Dave Ross (Principal Committee Secretary).
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1. **COMMITTEE MEMBERS**

Councillor Martin Lawton

1.1 The Chair (Councillor Ray Satur) reported that Councillor Martin Lawton was standing down from the Council at the end of the Municipal year and, therefore, possibly attending his last meeting of the Committee. He thanked him for his contribution to the work of the Committee and the work for his constituents.

Liz Stanley

1.2 The Chair welcomed Liz Stanley to her first meeting of the Committee as the new Co-opted Independent Member.

Beryl Seaman

1.3 The Chair referred to the card of thanks he had received from Beryl Seaman who was unable to attend her last meeting of the Committee, prior to standing down at the end of December 2013 as a Co-opted Independent Member.

2. **APOLOGIES FOR ABSENCE**

2.1 An apology for absence was received from Councillor Sioned-Mair Richards.

3. **DECLARATIONS OF INTEREST**

3.1 Councillor Martin Lawton declared personal interests in the following items:-

- Certification of Grant Claims and Returns 2012/13 - as a member of the South Yorkshire Pensions Authority

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- Financial/Commercial Monitoring of External Relationships - as a Director of the Manor Castle Development Trust Limited

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

4.   MINUTES OF PREVIOUS MEETING

4.1   The minutes of the meeting of the Committee held on 14 November 2013 were approved as a correct record.

Matters Arising

4.2   _South Yorkshire Trading Standards_

4.2.1   The Chair (Councillor Ray Satur) reported that it had not been possible for the Chief Executive to provide an update to members of the Committee as requested at the last meeting of the Committee but he had been receiving briefings from the Chief Executive on progress in obtaining a settlement with the other South Yorkshire local authorities. If the Chief Executive was unable to write to members of the Committee on the outcome of the negotiations within a month's time, he would brief the Chair and Deputy Chair of the Committee. They would then decide if the issue needed to be discussed at a meeting of the Committee. The Chief Executive would also brief the new Co-opted member on the background to the issue.

4.2.2   **Resolved**: That the information now reported is noted.

Director, KPMG

4.3   Further to the information reported at the last meeting of the Committee that Steve Clark would be replacing John Prentice as the Council's new External Auditor, David Phillips (Senior Manager, KPMG) reported that Steve Clark had subsequently resigned from KPMG to take up another post. The process of filling that vacancy was underway.

4.3.1   **Resolved**: That the information now reported is noted.

5.   REVIEW OF THE OPERATION OF THE NEW INTERNAL AUDIT STRUCTURE

5.1   The Assistant Director Finance (Business Partnering and Internal Audit) submitted a report that summarised how the new management arrangements for Internal Audit that were implemented on 1 April 2013 were operating in practice and how they fulfilled the requirements of the Public Sector Internal Audit Standards (PSIAS).

5.2   The Assistant Director and Senior Finance Manager responded to questions from members of the Committee relating to the evaluation of the new arrangements. The Senior Finance Manager confirmed that she had direct

access as required to the Chief Executive. The impact of additional special investigations since April 2013 on the delivery of the Audit Plan was also discussed. The Assistant Director confirmed that additional resource was being provided to ensure that the Plan could be delivered.

5.3   **Resolved**: That the Committee:-

(a)   notes the progress of implementing the new arrangements outlined in the report; and

(b)   endorses Internal Audit's management arrangements outlined in the report.

6.   CERTIFICATION OF GRANT CLAIMS AND RETURNS 2012/13

6.1   David Phillips (Senior Manager, KPMG) introduced a report of the Director, KPMG that summarised the work on the certification of the Council's claims and returns for 2012/13 in relation to grants and subsidies the Council received from the Government and grant paying bodies. Four grants and claims had been certified with a total value of £573.7m. The report included details of the certification results, audit adjustments, the reduction in fees, a summary of the outcomes and the recommendations from the certification work.

6.2   The Senior Manager, KPMG and Director of Finance responded to questions from members of the Committee relating to pensions and the recommendations in the report.

6.3   **Resolved**: That the Committee notes the report now submitted.

7.   EXCLUSION OF PUBLIC AND PRESS

7.1   **Resolved:** That the public and press be excluded from the meeting before discussion takes place on the following item of business (the Financial/Commercial Monitoring of External Relationships) 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.

8.   FINANCIAL/COMMERCIAL MONITORING OF EXTERNAL RELATIONSHIPS - PROGRESS REPORT

8.1   The Director of Finance introduced a report of the Executive Director, Resources that provided an update on the financial and commercial monitoring of the Council's major external relationships since the report to the Committee on 9 July 2013.

8.2   The Chief Executive and Director of Finance and responded to questions from members of the Committee relating to Amey, Veolia, whether other partnerships should be included in the report and the format of the report.

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

    (a)   notes the report now submitted; and

    (b)   requests the Director of Finance to clarify the issue now raised regarding the format of the report.

9.   WORK PROGRAMME

9.1   The Director of Legal and Governance submitted a report containing a work programme to April 2014.

9.2   **Resolved**: That the Committee:-

    (a)   approves the work programme with the inclusion of an item on the review of the Adult Social Care systems and processes for the April meeting; and

    (b)   requests that members of the Committee inform the Chair (Councillor Ray Satur) of any potential items for inclusion in the work programme.

10.   DATES OF FUTURE MEETINGS

10.1   To note that meetings of the Committee will be held at 6.00 p.m. on:-

- 13 February 2014 (additional meeting if required)
- 13 March 2014 (additional meeting if required)
- 10 April 2014

AUDIT COMMITTEE REPORT – 10 APRIL 2014

EXTERNAL AUDIT PLAN 2013/14
Report of the Director, KPMG.

Recommendation:

That the Committee notes the External Audit Plan 2013/14.

Category of Report: Open

KPMG

cutting through complexity™

External Audit Plan 2013/14

Sheffield City Council

7 February 2014

Contents

The contacts at KPMG in connection with this report are:

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Sue Sunderland, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448330.

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

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Scope of this report

We are pleased to continue as your external auditors for 2013/14. This document supplements our *Audit Fee Letter 2013/14* presented to you in April 2013. It describes how we will deliver our financial statements audit work for Sheffield City Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2013/14.

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

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

Statutory responsibilities

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

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

■ *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and

■ *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

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

Structure of this report

This report is structured as follows:

■ Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audit.

■ Section 3 describes the approach we take for the audit of the financial statements.

■ Section 4 provides further detail on the financial statements audit risks.

■ Section 5 explains our approach to VFM work .

■ Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

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Audit approach	Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Director of Finance.
	Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.
Key financial statements audit risks	We have completed our initial risk assessment for the financial statements audit and have identified the following significant risks at this stage:
	■ Digital Region Ltd (DRL) – the Authority must ensure that its estimate of the losses arising from the wind-up of DRL remain accurate, and we will review this estimate, commenting on its material accuracy and completeness as needed;
	■ LGPS triennial valuation – the pensions numbers to be included in the financial statements for 2013/14, and for the following two years, will be based on the output of the triennial valuation rolled forward to 31 March 2014. A large volume of data was provided to the actuary in order to carry out this triennial valuation. Consequently there is a risk that the data provided to the actuary for the valuation exercise is inaccurate, and we will agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data; and
	■ Property, Plant and Equipment – there is the potential for large impairment or valuation changes, particularly since schools transferring to Academy or Foundation status must be derecognised, and these valuations and impairments are often highly judgemental. Consequently we will review the accounting for the material changes, particularly for schools' land and buildings.
	■ Changes in associated bodies - there are changes in the status of various bodies associated with the Council. We will review the Authorities assessment of the impact of these changes on its accounts, including the group accounting assessment and post balance sheet events disclosure.
	These risks are described in more detail on pages 10 to 12. We will assess the Authority's progress in addressing these risk areas as part of our interim work and conclude this work at year end.

This table summarises the headline messages. The remainder of this report provides further details on each area.

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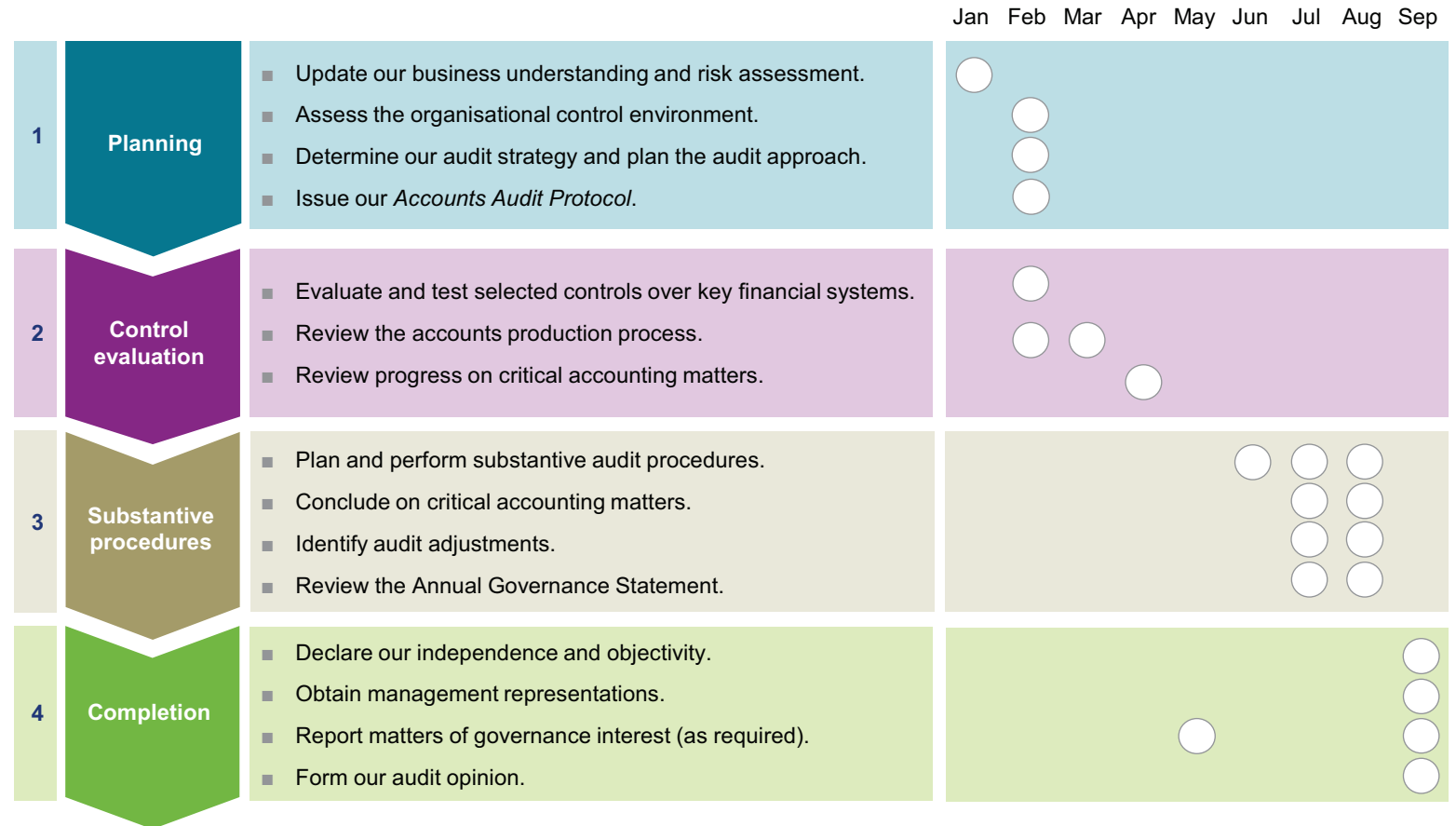| VFM audit approach	We have completed our initial risk assessment for the VFM conclusion and have identified the following significant risks at this stage. ■ Savings plans – the Authority is largely on track to make savings of £50m in 13/14, but overspends principally in Adult Social Care mean that an overspend of £3.6m (0.7%) is currently projected. Further reductions in Government funding of £36m and £45m must be made in 2014/15 and 2015/16 respectively. We will continue to monitor the Council's budgets, outturn and medium-term financial strategy. We will also liaise with the Authority over the findings of the Adult Social Care review, and the actions that the Authority is proposing to take; ■ Digital Region Ltd - In addition to the accounting considerations , the four SY authorities who were partners in DRL are considering what lessons can be learned from the project. To support this consideration, as a piece of additional work outside of our Code powers, we have agreed with the four authorities that we will complete an overview of the whole DRL project cycle. We will seek to use this work to inform our responsibility to assess the Authority's value for money arrangements; and ■ SY Trading Standards Unit (SYTSU) – the Authority is still seeking to recover various sums due in respect of the closure of SYTSU, and we will review the final settlement to form a view as to whether it represents appropriate value for money for the authority, and comment if it does not. These risks are described in more detail on pages 14 to 15. We will assess the Authority's progress in addressing these risk areas during the year, and conclude this work at year end.
Audit team, deliverables, timeline and fees	After five years as your Director, John Prentice has rotated away from the team and has been replaced by Sue Sunderland. David Phillips remains as your Audit Manager, and Atta Khan, who led the financial statements audit in 2013, remains as Assistant Manager. Our main year end audit is currently planned to commence in early July 2014. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*. The planned fee for the 2013/14 audit is £247,860. This is unchanged from the position set out in our *Audit Fee Letter 2013/14*.

We undertake our work on your financial statements in four key stages during 2014:

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

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

			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	**Planning**	■ Update our business understanding and risk assessment. ■ Assess the organisational control environment. ■ Determine our audit strategy and plan the audit approach. ■ Issue our *Accounts Audit Protocol*.									
2	**Control evaluation**	■ Evaluate and test selected controls over key financial systems. ■ Review the accounts production process. ■ Review progress on critical accounting matters.									
3	**Substantive procedures**	■ Plan and perform substantive audit procedures. ■ Conclude on critical accounting matters. ■ Identify audit adjustments. ■ Review the Annual Governance Statement.									
4	**Completion**	■ Declare our independence and objectivity. ■ Obtain management representations. ■ Report matters of governance interest (as required). ■ Form our audit opinion.									

Our audit approach – planning

During January and February 2014 we complete our planning work.

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

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

We will issue our *Accounts Audit Protocol* following completion of our planning work.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

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

Business understanding and risk assessment

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

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

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

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Accounts Audit Protocol

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

We met with the Finance Manager, Strategic Finance to discuss mutual learning points from the 2012/13 audit. These will be incorporated into our work plan for 2013/14. We revisit progress against areas identified for development as the audit progresses.

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During February to April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14.

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

We will report any significant findings arising from our work to the Audit Committee.

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

Control Evaluation	■ Evaluate and test controls over key financial systems identified as part of our risk assessment. ■ Review the accounts production process. ■ Review progress on critical accounting matters.

Controls over key financial systems

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

Liaising with internal audit

In order to maximise the effectiveness of the audit resources deployed we will have discussions with internal audit to understand our respective approaches and to ensure there will be no duplication of effort.

Critical accounting matters

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

If there are any significant findings arising from our interim work we will present these to the Audit Committee in June /July 2014.

Our audit approach – substantive procedures

During July to August 2014 we will be on site for our substantive work.

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

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

We will present our *ISA 260 Report* to the Audit Committee in September 2014.

Our final accounts visit on site has been scheduled for the period July to August 2014. During this time, we will complete the following work:

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

Substantive audit procedures

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

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Finance Manager, Strategic Finance in July and August 2014, prior to reporting to the Audit Committee in September 2014.

Audit adjustments

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

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

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

Annual Governance Statement

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

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

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In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

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

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Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Elector challenge

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

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

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

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

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 17.

Independence and objectivity confirmation

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

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

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

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of 7 February 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Key financial statements audit risks

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.

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

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.
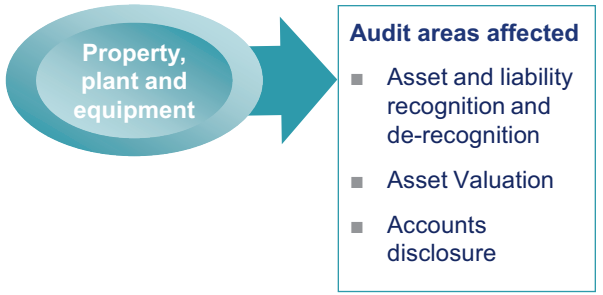
Key audit risks	Impact on audit
Digital Region Ltd → **Audit areas affected** ■ expenditure ■ provisions ■ reserves	**Risk** Digital Region Limited (DRL) was a joint venture between the four South Yorkshire local authorities to provide broadband services across South Yorkshire. However the business plan proved to be unachievable, so, in order to limit further costs, the local authorities took the decision to wind-up the company earlier in 2013/14. Significant costs had already been provided for in earlier years, when these costs became accruable under the accounting standard governing provisions (IAS37), so the authorities currently are confident that further significant costs will not be incurred. **Our audit work** We will review the Authority's estimate of the costs arising from the wind-up of DRL at the time the Authority's 2013/14 accounts are prepared, commenting on its material accuracy and completeness as needed.

Key financial statements audit risks (continued)

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

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Key audit risks	Impact on audit
Audit areas affected ■ Pensions Liability ■ Actuarial gains or losses	**Risk** During the year, the Local Government Pension Scheme for South Yorkshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pensions (IAS19) numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by South Yorkshire Pensions Authority (SYPA) who administer the Pension Fund. **Our audit work** We will consider the impact of the triennial valuation on the pension liability at 31 March 2014. We will liaise with actuarial experts and with the auditor of the South Yorkshire Pension Fund to gain assurance over the liability.

LGPS triennial revaluation

Key financial statements audit risks (continued)

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

Key audit risks	Impact on audit
Property, plant and equipment → **Audit areas affected** ■ Asset and liability recognition and de-recognition ■ Asset Valuation ■ Accounts disclosure	**Risk** The potential for impairment and valuation changes, particularly the accounting of schools transferring to Academy or Foundation status, makes this balance inherently risky due to the high level of judgement and estimation uncertainty. These changes in valuation are often very significant when considered in relation to Performance Materiality. Some elements can also involve complex accounting. This is usually a presentational issue rather than one that affects the General Fund. **Our audit work** We will gain an understanding of the main changes impacting on 2013/14 and review the accounting for those changes, particularly schools' land and buildings.
Changes in associated bodies → **Audit areas affected** ■ pervasive	**Risk** There are changes in the status of various bodies associated with the Council. Sheffield Homes was in-sourced in April 2013, the City Region Combined Authority takes over transport responsibilities from the Integrated Transport Authority from April 2014, the contract for housing and other maintenance will move from Kier LLP to a new provider from April 2014, and the Authority's LA Housing Company is becoming more active. These changes will necessitate a thorough assessment of whether the Authority should prepare group accounts, and of the more general accounting requirements for these bodies, including whether post balance sheet events notes are required. **Our audit work** We will review the Authority's assessment of whether group accounts should be prepared, and will review the other accounting requirements.

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

Background to approach to VFM work

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

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and

- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: - manage effectively financial risks and opportunities; and - secure a stable financial position that enables it to continue to operate for the foreseeable future.	- Financial governance - Financial planning - Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: - achieving cost reductions; and - improving efficiency and productivity.	- Prioritising resources - Improving efficiency and productivity

We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

VFM audit approach (continued)

As part of our planning work, we have identified a number of specific VFM risks.

As part of our initial risk assessment, we will assess whether external and internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Where this is not the case, we will carry out additional risk-based work.

As part of our initial audit planning we have identified three specific VFM risks. As part of our detailed risk assessment, we will assess whether external and internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate. We will then plan and carry out additional risk based work as required. We will report our final conclusions in our *ISA 260 Report 2013/14*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
Savings Plans	To the end of month 7 (October 2013) the Authority is forecasting an overspend of £3.6m for 2013/14, on a budgeted outturn of £507m. This overspend has reduced from the £8.3m forecast at the end of month 3, with an overspend of £8.7m on Learning Disabilities Services and Older People's care, and £3.0m Mental Health purchasing (in short Adult Social Care services) being the primary causes. The 2013/14 budget includes a savings programme of £49.6m. The Authority's 2014/15 to 2018/19 financial strategy assumes that there will be £37m and £45m of reductions in Government funding in 2014/15 and 2015/16 respectively (these figures have changed slightly but not significantly following the December 2013 settlement), requiring further significant savings to be found. Against a backdrop of continued demand pressures it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. This issue is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	The Authority continues to monitor its financial position closely, and to take the necessary difficult decisions to balance its books. In particular it is investigating the causes of the overspends in Adult Social Care, and looking to tighten systems to ensure that these do not reoccur. The Authority assesses that its reserves remain adequate to deal with contingencies. As part of our VFM work we will continue to monitor the Council's budgets, outturn and medium-term financial strategy. We will also liaise with the Authority over the findings of the Adult Social Care review, and the actions that the Authority is proposing to take.

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VFM audit approach (continued)

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
Digital Region Ltd	As described in more detail under the financial statements risks section, Digital Region Limited (DRL) was a joint venture between the four South Yorkshire local authorities to provide broadband services across South Yorkshire. In the light of the ongoing cost of supporting DRL the Authority, in conjunction with the other shareholders, took the decision to wind up the company in August 2013. This decision should limit the Authority's exposure to future losses connected with DRL. It is also intended to lead to the overall cost being equal to or less than the provision of £12.6m included in the 2012/13 financial statements. We understand that the process of winding up the company will not be concluded during 2013/14. This issue is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.	The four SY authorities who were partners in DRL are considering what lessons can be learned from the project. To support this consideration, as a piece of additional work outside of our Code powers, we have agreed with the four authorities that we will complete an overview of the whole DRL project cycle, from the initial decision to invest up to the final decision to close the company. We will map the main decisions, governance arrangements and information flows relevant to the key risk areas. We will seek to rely on the above work to inform our value for money conclusion, carrying out additional work (only) if necessary.
SY Trading Standards Unit	The authority is still seeking to recover costs from the other three SY authorities arising from the closure of this unit. This issue is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.	Negotiations have been protracted, but we understand that a resolution satisfactory to all parties is close to being achieved. We will review the final settlement, to form a view as to whether it represents appropriate value for money for the authority, and comment if it does not.

Our audit team has been drawn from our specialist public sector assurance department. After five years as your Director, John Prentice has rotated away from the team and has been replaced by Sue Sunderland, who was the District Auditor for your audit between 2005/06 and 2007/08. David Phillips remains as your Audit Manager, and Atta Khan, who led the financial statements audit in 2013, remains as Assistant Manager.

Contact details are shown on page 1.

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

"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee, the Executive Director, Resources and Chief Executive."

Sue Sunderland
Director

"I provide quality assurance for the audit work and specifically any technical accounting and risk areas.

I will work closely with the Director to ensure we add value.

I will liaise with the Director of Finance, his Deputy, the Assistant Director, Finance, Business Partnering and IA, and other Executive Directors as needed."

David Phillips
Senior Manager

"I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.

I will liaise with the Finance Manager, Strategic Finance, and the Senior Finance Manager Internal Audit"

Atta Khan
Assistant Manager

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

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

We will discuss and agree as appropriate each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures.	**April 2014**
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements.	**September 2014**
Completion		
Auditor's Report	■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2014**
Whole of Government Accounts	■ Provide our opinion on the Authority's WGA pack submission.	**September 2014**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2014**

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

Key formal interactions with the Audit Committee are:

- **April – External Audit Plan;**

- **September – ISA 260 Report;**

- **November – Annual Audit Letter.**

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

Our main work on site will be our:

- **Interim audit visits during February and March.**

- **Final accounts audit during July and August.**

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Communication

Regular meetings between the Engagement Lead and the Chief Executive and the Executive Director, Resources

Presentation of the *External Audit Plan*

Presentation of the *ISA260 Report*

Presentation of the *Annual Audit Letter*

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Audit workflow

Interim audit visit

Final accounts visit

Audit planning → Control evaluation → Substantive procedures → Completion

Continuous liaison with the finance team and internal audit

Key: ● Audit Committee meetings.

The fee for the 2013/14 audit of the Authority is £247,860. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

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

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

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2013/14 is £247,860.

Audit fee assumptions

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

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;

- you will inform us of any significant developments impacting on our audit;

- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;

- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:

  – the financial statements are made available for audit in line with the agreed timescales;

  – good quality working papers and records will be provided at the start of the final accounts audit;

  – requested information will be provided within the agreed timescales;

  – prompt responses will be provided to queries and draft reports;

- internal audit meets appropriate professional standards;

- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and

- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

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

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas. The Authority successfully achieved this in 2012/13.

Changes to the audit plan

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

- new significant audit risks emerge;

- additional work is required of us by the Audit Commission or other regulators; and

- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Finance.

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

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

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

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

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

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

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

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

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
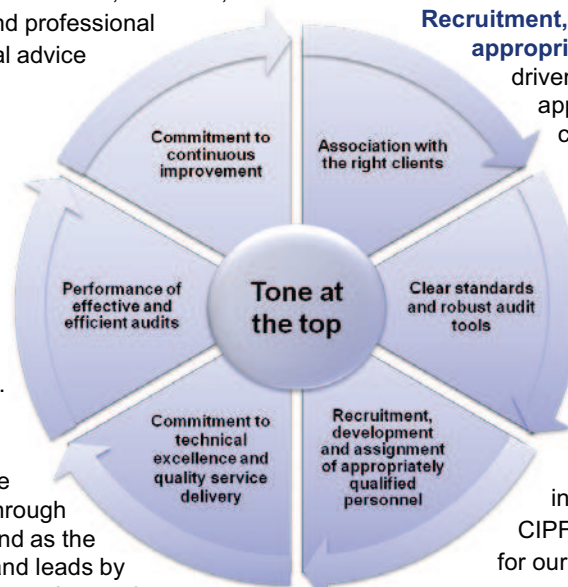
Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

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

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

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

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

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

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.

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KPMG

cutting through complexity ™

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SHEFFIELD CITY COUNCIL

REPORT TO AUDIT COMMITTEE		DATE
		10 April 2014

REPORT OF	Assistant Director Finance – Business Partnering and Internal Audit	ITEM

SUBJECT	Internal Audit Plan 2014/15	

SUMMARY	The report presents the Internal Audit Planning Strategy and programme of work for 2014/15.	

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 2014/15.	

FINANCIAL IMPLICATIONS CLEARED BY	No K Inman	PARAGRAPHS 33

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS	K Inman	TEL NO.
		273 4435

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
10th April 2014 - DRAFT

Assistant Director Finance (Business Partnering Communities & Internal Audit) Report – 2014/15 Audit Strategy and Work Programme

<u>**Purpose of the Report**</u>

1. The purpose of this report is to present and communicate to members of the Audit Committee the Internal Audit plan and strategy for 2014/15.

<u>**Background**</u>

2. A new approach for the audit planning process was introduced for 2012/13, and subsequently presented to the Audit Committee in May 2012. The strategy for Internal Audit work was to focus on specific areas of activity which could provide assurance that risk and internal control in the main corporate systems were being properly managed by Directors in service areas.

3. Throughout 2012/13 and 2013/14, internal audit have taken assurance, based on a significant number of reviews in these areas having a low or medium/low audit opinion, that these processes are operating satisfactorily. This has then helped to inform the planning process for 2014/15.

4. During the financial year 2012/13 and again in 2013/14 there was a decrease in the number of benefit 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.

5. An additional observation in 2013/14 was a significant increase in the volume of unplanned work requested from Internal Audit.

<u>**Audit Strategy**</u>

6. In order to plan for the use of Internal Audits' resources, the strategy has been structured around the following:
   - More utilisation of the Corporate Risk Management process including the Corporate Risk Register and Portfolio Risk Management Plans.
   - More utilisation of the information provided by Directors under the Annual Governance Statement (AGS) process.
   - Risk based reviews in areas of highest perceived risk as determined by the Chief Executive/Executive Management Team (EMT)/Executive Director - Resources/Director of Finance/Assistant Director Finance (Business Partnering Communities & Internal Audit) /Senior Finance Manager/ Finance Managers.
   - A reduction around the Main Corporate Systems to complete the cyclical nature of reviews in this area i.e. Internal Audit of Projects, Programmes and Partnership arrangements.

- An allocation of resource to cover 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.

7. The format of the tactical plan for 2014/15 has also been altered to include additional information about the scope of audit reviews. It also identifies whether the auditable area is present in either the portfolio or corporate risk register and whether there are any AGS concerns raised.

8. We have also distinguished between the different types of audit such as corporate reviews (same audit completed in each portfolio), strategic reviews (single topic/theme that impacts on multiple services/portfolios), Compliance audits and Risk Based Audit.

Utilisation of the Corporate Risk Management Arrangements

9. 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.

Utilisation of the Annual Governance Statement

10. The process for collating information for the production of the AGS was established by Internal Audit and is now being managed by Legal and Governance. 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.

Main Corporate Systems

11. 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

12. Given the outcome of the audits conducted in 2012/13, it was agreed to review portfolio compliance on a cyclical basis. In 2014/15 a residual resource is dedicated to completing this cycle of audits. Assurance has been taken that these areas are by and large, operating satisfactorily and this has been used to inform other areas of the plan (as detailed above).

Fraud Allegations (Re-active investigations)

13. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft and corruption. During 2013/14 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 2014/15 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.

14. As anticipated, during 2013/14 we have seen a considerable upturn in reported irregularities due to a number of factors such as:

    - 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.

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. During recent years Internal Audit has provided fraud awareness presentations to employees to improve defences against fraud. An e-learning course was been developed and made available to replace face to face training and this will be refreshed in 2014/15.

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.

19. Key Financial Systems have been selected for the 2014/15 audit plan, including a number of follow up reviews. In addition to this, a number of reviews relating to General Ledger systems have also been included within the Resources Portfolio plan. This will assist External Audit, who has confirmed that they will be focusing on these areas for future years. The Director of Finance believes this aspect of the work of Internal Audit to be crucial in supporting the S151 officer responsibilities.

ICT

20. The partnership for technical ICT support was re-tendered in 2013/14, 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 for 2014/15, using their ICT knowledge and expertise.

Risk Based Audits of Systems/Services/Functions

21. The 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 basis of the planning discussions were not a fully risk scored audit universe but more reliant on perceived areas of risk and emerging issues.

22. 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.

Summary of the Audit Plan

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

Auditable Area	Days
Corporate Reviews	174
Communities	450
Main Financial Systems	108
Main Corporate Systems	113
Children, Young People and Families (CYPF)	304
Place	169
Resources and ICT	371
Investigations and Benefits	229
Total	**1918**
High Priority	1296
Medium Priority	569
Low Priority	30
Statutory	23
Total	**1918**

25. In order to complete the above plan, a matrix approach to resource management will be employed whereby each auditor will be directly line-managed by a named Finance Manager, but they will be required to conduct audits across a range of areas. The added benefit with this approach is to broaden the expertise of the auditors, who generally specialised in specific portfolios.

26. It should be noted that the above total does not balance exactly to the resources available. In addition, it will be significantly affected by any unplanned work requests. In the event that these materialise, we will need to re-prioritise our work programme to ensure that key risk areas are still covered.

27. The 2014/15 annual plan is attached at Appendix 1.

Future Considerations

28. 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.

29. 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. 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.

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 2014/15.

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Overall Summary By Portfolio and Audit Type

	Corporate*	Communities	MFS - MCS	CYPF	Place	Resources** & ICT	Investigations and benefits	Total Days	No of Audits
Strategic Reviews		40		40	40	40		160	16
Compliance Audits			218					218	12
Risk Based Audit	174	378		144	90	272	66	1124	69
System Based Audit							40	40	2
Control Risk Self Assessment		10		84	10	5		109	9
Application Reviews						36		36	3
Follow Up Audits		12	3	6	13	18		52	16
Project Management Reviews				18				18	1
Advisory					5		8	13	2
Investigations							115	115	6
Grant certification / sign-off		10		2	11			23	6
Report Production				10				10	1
Total Days	**174**	**450**	**221**	**304**	**169**	**371**	**229**	**1918**	**143**

High Priority	138	346	182	76	63	272	219	**1296**	
Medium Priority	36	82	36	216	93	96	10	**569**	
Low Priority		12	3	10	2	3		**30**	
Statutory		10		2	11			**23**	
	174	**450**	**221**	**304**	**169**	**371**	**229**	**1918**	

* Cross cutting reviews covering multiple Portfolios

** Includes Public Health, Sheffield One and Policy, Performance and Communications

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed Assurance to be obtained	Corporate Plan Link (priority/ value or outcome)	AGS	CRR	PRR
Corporate (174 days)								
Communities and CYPF	Slovakian-Roma Families – New Arrivals (cross cutting with Lifelong, Learning and Skills)	Risk Based Audit	Medium	Effective and robust plans, strategies, monitoring and reporting arrangements due to the increasing migrant population and subsequent impact on Communities, Housing and CYPF Services.	2, 3, 4, 6 & 8			
Place and Resources	Sheffield City Region (SCR) - Combined Authority	Risk Based Audit	High	From SCC perspective, providing assurance on the governance, relationship and risk management controls of this decision making body. To help ensure delivery of adequate solutions and effective use of resources to tackle strategic issues, including the promotion of SCC outcomes.	All			
All Portfolios	Statutory Services - Health Check	Risk Based Audit	High	Statutory services are identified and being delivered within designated timeframes and targets are being achieved to demonstrate the Council's compliance with their Statutory roles and responsibilities.	All		PR7	
Public Health	Public Health Service	Risk Based Audit	Medium	Effective maintenance and performance of the Public Health contracts, whilst delivering VFM.	2 & 6			

ICT - Core	ICT - Digital Strategy	Risk Based Audit	High	To provide management with assurance, that the IT strategy effectively supports the deliver of the business aims and objectives and service improvement plans. A review will ensure that the IT strategy is designed to deliver the business aims and that effective programmes and projects are in place to deliver the strategy.	All Values Outcomes1, 7 & 8		CR079	BIS 23
	Information Governance (Information Strategy)	Risk Based Audit	High	To provide assurance to management that the Council's Information Governance Strategy/ framework adequately covers all of the areas required by the Council.	All Values Outcomes1, 7 & 8		CR082	BIS 23 BIS 24 RES 3
	Information Governance (Data Security)	Risk Based Audit	High	To provide assurance to management that there are adequate safeguards in place regarding the physical security for data assets at moorfoot and potentially other strategic locations	All Values Outcomes1, 7 & 8		CR082	RES 3
	Remote Working	Risk Based Audit	High - Salford	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area.	All Values Outcomes1, 7 & 8		CR082	BIS 23
	Data Encryption	Risk Based Audit	High - Salford	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area including the third party data encryption arrangements.	All Values Outcomes1, 7 & 8			BIS 23
	Public Sector Network	Risk Based Audit	High - Salford	To provide assurance to management that their adequate controls in place to manage the identified risk in this area.	All Values Outcomes1, 7 & 8			BIS 23
	Disaster Recovery Arrangements	Risk Based Audit	High	To provide assurance to management that there are adequate arrangements in place at Service and Portfolio Level to provide service continuity should the Capita main data centre fail. This is a change from the current arrangements.	All Values		CR079	BIS 23 RES 02

	Financial Procedures/ Standing order review	Risk Based Audit	High	To provide assurance to management that the Financial Procedures are up to date and efficiently and effectively denote the current best practice processes and procedure in operation.	Priorities and Values and support Outcomes			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed Assurance to be obtained	Corporate Plan Link (priority/ value or outcome)	AGS	CRR	PRR
Communities Portfolio (450 days)								
	Director Assurance	Strategic	High	Exec directors/directors have effective arrangements to obtain assurance over the discharge of their statutory responsibilities. Review of data integrity/systems in use.	2			
	Outcome planning	Strategic	High	That outcome planning processes are in place, are robust and are operating in a satisfactory manner.	2			
	Business planning	Strategic	High	To provide assurance that business planning processes are in place, are robust and are operating in a satisfactory manner.	2			
	Budget setting and implementation of savings	Strategic	High	Arrangements support the effective setting, monitoring and delivery of the agreed budget and savings.	2		CR084	
	Cash Handling	Control Risk Self-Assessment	Medium	CRSA for Directors/Service Heads to assess cash handling and security arrangements provide assurance that cash handling risks such as theft or loss are being managed.	2			
	Health partnerships	Risk Based Audit	High	Review of controls and governance underpinning joint programmes or work. Covering CCG/SHSCT/RFT. May do on a rolling programme ie: RFT year 1, SHSCT year 2 etc. Links to Better Care Funding.	2	Yes		
	Archives annual accounts return	Grant certification / sign off	Statutory	**Statutory responsibility** for Internal Audit sign off of accounts. Internal Audit charge for this work.	N/A			

	Archaelogy annual accounts return	Grant certification / sign off	Statutory	**Statutory responsibility** for Internal Audit sign off of accounts. Internal Audit charge for this work	N/A			
Care and Support	Transitions	Risk Based Audit	High	Sound arrangements in place for the transition from Childrens Social Care to Adults Social Care.	2	Yes		
	Review and Reassessment	Risk Based Audit	High	Progress is being made on reviewing /reducing costs per individual support plans and targeted savings will be realised. Covering SDS/travel plans/adult provider services.	2	Yes		
	Direct Payments controls	Risk Based Audit	High	Controls in place around the awarding and monitoring of direct payments are effective. Cover specific roles and responsibilities of SCAS.	2	Yes		
	Local Assistance Scheme governance	Risk Based Audit	High	Review of system in place for the awarding of loans and grants - with particular focus on fraud controls.	2	Yes		
	Care Contributions - payments in dispute	Risk Based Audit	Medium	Assurance that the 'in dispute' process for care contributions is being applied correctly, effectively and in a timely manner. Cover specific role and responsibilities of SCAS.	2	Yes		
	Continuing Health Care recharging mechanism	Risk Based Audit	High	Recharging mechanism in place between SCC and NHS for this service, are working effectively, efficiently and costs are being managed. Cover specific roles and responsibilities of SCAS.	2	Yes		4
	Real Time monitoring payments	Risk Based Audit	High	Controls in place for the payments to providers are robust. Cover the specific roles and responsibilities of SCAS.	2	Yes		
	Safeguarding - SHCT	Risk Based Audit	High	That communities are getting adequate assurance on safeguarding practices in the Care Trust for the services commissioned	2	Yes		

Business Strategy	Communities governance review	Risk Based Audit	High	Robust, effective, efficient decision making and governance bodies exist in Communities, following the recent re-structure.	2			
	Recovery plan progress	Risk Based Audit	High	Portfolio recovery plan in place is effective an identified recovery will be realised - including SHSCT recovery plan.	2	Yes	CR090	4,9
Commissioning	Costed Commissioning Plans	Risk Based Audit	High	Assurance that the systems in place for the production and use of commissioning plans are robust. To include review of strategic direction and links between ASC and Commissioning.	2			
	Quality of Market	Risk Based Audit	High	The service has robust assurance mechanism in place for the contracts SCC does not directly manage - including safeguarding.	2			
	Care contract management	Risk Based Audit	High	Assurance on the management/monitoring of care contracts once awarded. Considering the role of both the Service area and Commissioning.	2	Yes		
Housing Services	Housing VFM Board governance	Risk Based Audit	Medium	Board governance is effective, with particular concerns around the links to the HRA.	2			
	Libraries governance	Risk Based Audit	Medium	Governance arrangements for the management of network of libraries in Sheffield, post cabinet decision in February 2014.	2			
	Grant audit funding	Risk Based Audit	High	Governance on awarding of funding to local groups etc is robust; overarching controls are sound.	2			
	Right to Buy	Risk Based Audit	High	That the systems in place for RTB are operating soundly in light of new improved discounts.	2			

		Estate management	Risk Based Audit	Medium	Arrangements in place are operating soundly; implementation of recommendations made as part of service review are being actioned.	2			
		Choice Based lettings system	Risk Based Audit	High	Risks and governance with regard to the online letting system not in place, are being managed.	2			
		HRA/Self Financing	Risk Based Audit	High	that the revised HRA arrangements are properly managed and there are robust links between Place and Communities. Impact of reduced income and the impact on the HRA - due to welfare reforms - is being managed.	2			
Follow up		Continuing Health Care	Follow up	Low	That the agreed recommendations have been effectively implemented	2			
		Communities - Performance Management Information	Follow up	Low	That the agreed recommendations have been effectively implemented	2			
		Public Health - DACT	Follow up	Low	That the agreed recommendations have been effectively implemented	2			
		Governance - ex Sheffield Homes	Follow up	Low	That the agreed recommendations have been effectively implemented	2			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed Assurance to be obtained	Corporate Plan Link (priority/ value or outcome)	AGS	CRR	PRR
Main Financial Systems (108 days)								
	Council Tax	compliance	High	The system in place for managing and controlling council tax is working effectively and efficiently. Provides assurance to External Audit.	value			
	National non domestic rates (NNDR)	compliance	High	The system in place for managing and controlling NNDR is working effectively and efficiently. Provides assurance to External Audit.	value			
	Debtors	compliance	High	The system in place for managing and controlling debtors is working effectively and efficiently. Provides assurance to External Audit.	value			
	Creditors (P2P)	compliance	High	The system in place for managing and controlling Creditors is working effectively and efficiently. Provides assurance to External Audit.	value			
	Payroll	compliance	High	The system in place for managing and controlling payroll is working effectively and efficiently. Provides assurance to External Audit.	value			

	Financial controls - Resources	compliance	High	Following reviews in other portfolios, that the arrangements for financial controls in Resources are robust and effective. Provides assurance to External Audit.	value			
Main Corporate Systems (MCS) (113 days)								
	Performance Management Framework – Quality Assurance and use of Performance Information in Resources.	compliance	High	Following reviews in other portfolios, that the arrangements for the performance management system withinin Resources	value			
	Annual Governance statement (AGS) production	compliance	High	Annual review that the AGS has been produced in line per the requirements laid down.	value			
	Annual Governance statement - data quality checks	compliance	High	Assurance that the data contained within the AGS has been subject to appropriate quality check and the outcomes are robust.	value			
	Programmes & projects - Place Programme Management	compliance	Medium	Following reviews in other portfolios that the arrangements for programme and project management within Place are robust and effective.	value			
	Programmes & projects - Resources Programme Management	compliance	Medium	Following reviews in other portfolios that the arrangements for programme and project management within Resources are robust and effective.	value			
	Partnerships and Contracts - Capita	compliance	High	Assurance that Capita is managing the savings targeted - review of performance measures etc	value			

	Partnerships and Contracts - Veolia	compliance	High	Assurance that contract is flexible in light of service change requests	value		CR036	
Follow up (15 days)	Risk Management - Quality of Risk Mitigation	Follow up	Low	That the agreed recommendations have been effectively implemented	2			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	Portfolio RMP	CRR
CYPF Portfolio (304 days)								
	Director Assurance	Strategic	High	Executive Directors/Directors have effective arrangements to obtain assurance over the discharge of their statutory responsibilities.	2 & 3			
	Outcome Planning	Strategic	High	To provide assurance that the Outcome Planning processes are in place, are robust and are operating in a satisfactory manner.	2 & 3 Priorities			79
	Business Planning	Strategic	High	To provide assurance that the Business Planning processes are in place, are robust and are operating in a satisfactory manner.	2 & 3 Priorities			79
	Budget Setting & Implementation of Savings	Strategic	High	To provide assurance that arrangements support the effective setting, monitoring and delivery of the agreed budget and savings.	2 & 3 Priorities		060, 065, 098 101, 110 & 114	79
	Grant - Step up to Social Work	Grant certification / sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with. £1.4m for training and development of trainees. Required by 31.3.14.	3			
Children's Commissioner	Integrated Sexual Health Service	Risk Based Audit	Medium	Effective reporting and monitoring arrangements of the current contract (2014/15) and evidence that targets and outcomes are being identified and established for the new contract.	2 & 3		204	

Inclusion and Learning (ILS)	In year Admissions (makes reference to Slovakian-Roma Families New Arrivals audit)	Risk Based Audit	Medium	Timely process in place to track all in year admissions demonstrating prompt and effective communication channels between all partners. Includes effective place planning to tackle demand.	3		126	
Children and Families	Early Years' Service Review (cross cutting with ILS)	Risk Based Audit	High	To provide assurance following the restructure and cessation of grants to some childcare providers. To consider the impact and effectiveness of the changes and redesign of this service, in particular performance and outcomes.	3		134	14
School Themed Reviews	School Improvement Planning	Control Risk Self-Assessment	Medium	CRSA to identify Headteachers/Business Managers assessment of the Schools Improvement Planning process. Assessing how are Headteachers/Governors planning to use resources to improve outcomes for children. May involve visits, will depend on content of returns.	2 & 3			
	Critical Incident Planning	Control Risk Self-Assessment	Medium	CRSA to identify Headteachers/Business Managers assessment of Critical Incident Planning to ensure effective and robust plans/policy are in place. Ensuring that all incidents are identified, reported, documented and appropriate remedial action taken where necessary. May involve visits, will depend on content of returns.	3			

	Business Continuity Planning	Control Risk Self-Assessment	Medium	CRSA to identify Headteachers/Business Managers assessment of Business Continuity Planning to ensure effective and robust plans are in place. Ensuring systems and procedures are in place to enable its key functions to continue in the event of an emergency, interruption or disruption to normal service. May involve visits, will depend on content of returns.	3		
	Income Generation and Collection	Control Risk Self-Assessment	Medium	CRSA to identify Headteachers/Business Managers assessment on cash handling and security arrangements to ensure that cash handling risks such as loss or theft are being managed. May involve visits, will depend on content of returns.	3		
	Declaration of Pecuniary Interests - School Recruitment	Control Risk Self-Assessment	Medium	CRSA to identify Headteachers/Business Managers assessment of Declarations of Pecuniary Interests to ensure that any potential conflicts are appropriately declared, assessed and action taken where necessary. May involve visits, will depend on content of returns.	3		
	Schools Annual Report	Report Production	Low	Report outlining and summarising all the findings and recommendations for the 2013/14 school themed audits.	2 & 3		

Business Strategy	Cash Handling	Control Risk Self-Assessment	Medium	CRSA to identify Directors/Service Heads assessment on cash handling and security arrangements to ensure that cash handling risks such as loss or theft are being managed. May involve visits, will depend on content of returns.	3			
	Traded Services	Risk Based Audit	Medium	Decision making process robust and strategic development and co-ordination of traded services.	3			
	Use of Dedicated Schools Grant (DSG)	Risk Based Audit	Medium	The DSG has been spent wisely and the allocation method is methodical, fair and decisions made in line with SCC Policy and DfE regulations.	2 & 3 Values			
Lifelong Learning and Skills (LLS)	Sheaf Training Centre	Risk Based Audit	Medium	Financial management arrangements are effective and enable the Centre to break even.	2 & 3		97	
	City Deal Project (links to Sheffield City Region audit)	Project Management	High	Compliance with Skills Funding Agency (SFA) funding arrangements with the aim of the project to work with employers and provide funds to generate jobs/apprenticeships (target currently 4,000 apprentices across SCR). Audit coverage to include performance management. It's a 3 year project estimated at £72m.	3		173 & 183	
	Alternative Provision	Risk Based Audit	Medium	System is robust to encourage 14-16 year olds who are not currently in mainstream education to participate.	3			
	Care Leavers (cross cutting with Children and Families)	Risk Based Audit	Medium	Strategy and results of trying to engage care leavers is effective, resulting in a reduction in NEET statistics (Not in employment, education or training).	3			

Follow-ups	Payroll - Schools using Independent Payroll Services	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was H.	3			
	Payroll - School Appointments, Terminations and Amendments to Pay	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was H.	3			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	Portfolio RMP	CRR
Place Portfolio (169 days)								
	Director's Assurance	Strategic	High	Executive Directors/Directors have effective arrangements to obtain assurance over the discharge of their statutory responsibilities.	1, 6, 7 & 8			
	Outcome Planning	Strategic	High	To provide assurance that the Outcome Planning processes are in place, are robust and are operating in a satisfactory manner.	1, 6, 7 & 8 Priorities		PR2	79
	Business Planning	Strategic	High	To provide assurance that the Business Planning processes are in place, are robust and are operating in a satisfactory manner.	1, 6, 7 & 8 Priorities		PR5 & 7	79
	Budget Setting & Implementation of Savings	Strategic	High	To provide assurance that arrangements support the effective setting, monitoring and delivery of the agreed budget and savings.	1, 6, 7 & 8 Priorities		PR3 & 5	79
Development Services & Regeneration	Grant - Local Pinch Point Fund	Grant certification / sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with. A61 Penistone road junction improvements with a grant allocation of £1.9m. Required by 30.9.14.	8			
	Sheffield Lower Don Valley (LDV) - Growth Fund Allocation	Grant certification / sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with. £5.5m flood defence grant for the protection of commercial businesses. Required by 31.3.15	6,7 & 8			

	Local Authority Bus Subsidy Grant	Grant certification / sign off	Statutory	Statutory responsibility - an audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with. £53k to support bus services and provision of infrastructure. Required by 30.9.14	6,7 & 8			
	Section 106 Planning Income	Risk Based Audit	Medium	Systems and controls ensure the effective identification and recovery of funds relating to S106 planning obligations. Ensuring processes are robust around governance, quality/ control issues and effective application of resources.	6			
Business Strategy & Regulation	Cash Handling	Control Risk Self-Assessment	Medium	CRSA to identify Directors/Service Heads assessment on cash handling and security arrangements. To ensure that cash handling risks such as loss or theft are being managed. May involve visits, will depend on content of returns.	6 & 8			
	Debt Management	Risk Based Audit	Medium	Debt collection arrangements are effective and portfolio debt levels and historical debts have reduced. The Council's system for debt recovery is complied with.	6 & 8			
Culture & Environment	Cycling Tour De France - Grand Depart	Risk Based Audit	High	Effective delivery, within budget, measurable outcomes and effective contractual relationships and monitoring arrangements.	8		PR9	99
Capital & Major Projects	Markets	Risk Based Audit	Medium	Effective governance and financial management across all markets.	1 & 8			

	Department of Energy and Climate Change (DECC) Governance & Project Management - District and Community Heating	Advisory	High	Project management standards are complied with including clear project planning and progression, effective communication channels, defined roles and responsibilities and effective governance and reporting arrangements. Including effective and clear links to other projects and partners. To ensure heat networks provide a quality service and low carbon aspirations.	6, 7 & 8			
	Kier Asset Partnership Services (Kier KAPS) - Payment mechanism	Risk Based Audit	Medium	Robust payment, validation and monitoring process to this key strategic partner for the delivery of effective services.	All			
Follow-ups	Licensing & Income	Follow up	Low	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was H-M.	6 & 8			
	Car Parking Services	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was H.	6 & 8			
	Projects - Risk Management & Reporting	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was H.	All	Yes		
	Delivery of Highways Schemes	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was H.	1, 6, 7 & 8	Yes		

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	CRR	RRR
ICT (51 days)								
BIS Contract Management	Data Protection and FOI	Follow-up	Medium	To provide management and the audit committee with assurance, that all of the relevant actions have been taken to implement recommendations in order to reduce the risk to an acceptable level.	All Values Outcomes1,7 & 8		CR082	BIS 23
BIS - ICT Governance	Information Governance - Subject Access Requests	Follow-up	Medium	To provide management and the audit committee with assurance, that all of the relevant actions have been taken to implement recommendations in order to reduce the risk to an acceptable level.	All Values Outcomes1,7 & 8		CR082	BIS 23
BIS - ICT Management	Chargeback Process / IT asset management	Follow-up	Medium	To provide management and the audit committee with assurance, that all of the relevant actions have been taken to implement recommendations in order to reduce the risk to an acceptable level.	All Values		CR082 & CR080	BIS 24
ICT Applications	Magnolia (Councils Internet system)	ICT - Application Review	Medium	To provide management with assurance that the application controls are well defined and implemented and that their adequate management oversight in place to ensure that the controls are operating satisfactorily	All Values Outcomes 7 & 8		CR082 & CR079	BIS 23

	GIS - Geographical Information System	ICT - Application Review	Medium	To provide management with assurance that the application controls are well defined and implemented and that their adequate management oversight in place to ensure that the controls are operating satisfactorily	All Values Outcomes 7 & 8		CR082 & CR079	BIS 23
	Choice based lettings	ICT - Application Review	High	To provide management with assurance that the application controls are well defined and implemented and that their adequate management oversight in place to ensure that the controls are operating satisfactorily	All Values Outcomes 2,4 5 & 6			
	Care first (system used in social care)	Follow-up	Medium	To provide management and the audit committee with assurance, that all of the relevant actions have been taken to implement recommendations in order to reduce the risk to an acceptable level.	All Values Outcomes 2,4 5 & 6		CR 090	BIS 23
Resources Portfolio (320 Days)								
	Outcome Planning	Strategic	High	To provide assurance that the Outcome Planning processes are in place, are robust and are operating in a satisfactory manner.	Priorities and Values and all Outcomes		CR079	
	Business Planning	Strategic	High	To provide assurance that the Business Planning processes are in place, are robust and are operating in a satisfactory manner.	Priorities and Values and all Outcomes		CR079	
	Budget Setting and Implementation of Savings	Strategic	High	To provide assurance that arrangements support the effective setting, monitoring and delivery of the agreed budget and savings.	Priorities and Values and all Outcomes		CR079	

	Director Assurance Mapping	Strategic	High	Executive Directors/Directors have effective arrangements to obtain assurance over the discharge of their statutory responsibilities.	Priorities and Values and all Outcomes		CR079	
Public Health Core	Public Health Process in the Council	Risk Based Audit	High	To provide assurance that the core functions of Public Health are being effectively managed and support the key values and outcomes of the council.	Priorities and Values and Outcomes 1, 2,3,6 & 8			PH 02
Customer Services	City Wide Alarms	Risk Based Audit	Medium	Following the externalisation of the service, to provide assurance to management that there are adequate controls in place to manage the identified risk in this area.	Priorities and Values and Outcomes 1,2,5 & 6		CR 025	Cos 11 Res 02
Transport & Facilities Management (Resources)	Facilities management	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area. This will main focus upon the management control arrangements in place for the contract with Kier.	Priorities and Values and Outcomes 1,5 & 6			T&FM 03
Human Resources (Resources)	Service compliance with Council policies and procedures.	Risk Based Audit	High	To provide assurance to management that the management information that they receive regarding HR processes is timely and accurate and covers all of the key functions of responsibility.	Priorities and Values and Outcomes 1,6 & 8		CR 045	
Business Information &Transformation (Resources)	Process review of the Transformation Process	Follow-up	Low	To provide management and the audit committee with assurance, that all of the relevant actions have been taken to implement recommendations in order to reduce the risk to an acceptable level.	Priorities and Values and support Outcomes			

Commercial Services (Resources)	Review the decision process for the continuation of the CAPITA contract.	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place for the decisions relating to the length of the Capita contract.	Priorities and Values and Outcomes 1 & 8			Cos 11
	Commercial Services review	Risk Based Audit	Medium	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area. This will include risk associated with management control and governance issues. The review will cover the efficiency and effectiveness of process management as well as financial and HR issues.	Priorities and Values and Outcomes 1 & 8		CR 079	
	Review of processes for identifying and categorising cost savings on non contracted amounts.	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the issues in this area. The Key risk is that items which are identified as savings, by not paying for non contracted amounts, could actually be attempts at fraudulent changing by the contractor. It is important that the processes investigate and Categorise these issues correctly.	Priorities and Values and Outcomes 1 & 8		CR 079	
	Review of Commercial Services Interaction with Business Partners.	Risk Based Audit	Medium	To provide assurance to management that there are adequate and effective interaction between the service and business partners to ensure that all key elements of the procurement process are being complied with effectively.	Priorities and Values and Outcomes 1 & 8		CR079	

Finance (Resources)	New replacement for OEO and My Buy system	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area. This will look at the project controls in this area. In put to individuals elements would come from the MFS.	Priorities and Values and support Outcomes		CR079	FIN 14
	VAT	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area.	Priorities and Values and support Outcomes			
	Financial sign-off of corporate decisions with Financial implications	Risk Based Audit	High	To provide assurance to management that all decisions that have financial consequences within reports are identified at the earliest opportunity. That there is sufficient time for officer to review and challenge decisions, that decisions are challenged and only where appropriate consideration has been made are they signed off at the appropriate level.	Priorities and Values and support Outcomes		CR079	
	Corporate Assets register	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area. This will include ensuring that the asset base is correctly identified and recorded, that valuations are up to date and appropriate and that the calculation of asset values is correct.	Priorities and Values and support Outcomes			

		External Funding Team	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area. To provide assurance to Internal Audit around the adequacy of control to assist in grant sign-off work.	Priorities and Values and support Outcomes		CR079	
		Capital programme	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area. This will cover approval, budget setting and the monitoring of performance, including the management of scheme/ budget slippage.	Priorities and Values and support Outcomes	Capital Programme management	CR079	
		Treasury Management	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area. This will include the examination of Treasury Management processes and cash flow management.	Priorities and Values and support Outcomes			
		Bank Account reconciliations/ Banking arrangements	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area.	Priorities and Values and support Outcomes			
		OEO General Ledger reconciliations.	Risk Based Audit	High	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area.	Priorities and Values and support Outcomes			

Cash Handling - Registry	Control Risk Self-Assessment	Medium	CRSA to identify Directors/Service Heads assessment on cash handling and security arrangements. To ensure that cash handling risks such as loss or theft are being managed. May involve visits, will depend on content of returns.	Priorities and Values and Outcomes 6 & 8			
Review of Petty Cash Central Controls	Risk Based Audit	Medium	The systems and process in this area are significantly changing. To provide assurance to management that there are adequate controls in place to manage the identified risk in this area.	Priorities and Values and support Outcomes			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	CRR	RRR
Investigations (229 Days)								
Re-active Investigations	Benefits	Investigation	High	Undertake investigations for housing benefits claim, which relate to Council employees and Members.	Priorities and Values Outcomes 2, 4 & 6		CR085 CR088 CR044	PP & C2
	Non Benefits	Investigation	High	Undertake investigations and support service managers where there are allegations of potential fraud.	Priorities and Values Outcomes 2, 4 & 6			
	Review of the Councils processes for undertaking Management Investigations	Risk Based Audit	High	To provide assurance to management that management investigations across the Council are being undertaken efficiently and effectively and that outcomes are on a consistent basis.	Priorities and Values Outcomes 2, 4 & 6		CR085 CR088 CR044	PP & C2
	Single Fraud Investigation Service (Residual Council Tax Support)	Risk Based Audit	High	To provide assurance that the council has adequate arrangements in place for the transfer to a single fraud investigation service and that the council has in place resources to identify and investigate the residual council tax support cases.	Priorities and Values Outcomes 2, 4 & 6		CR085 CR088 CR044	PP & C2
	Review of the E-learning module for fraud ink update and feedback to Directors of Business Strategy	Advisory	High	To provide a core product for staff development in fraud risk management. To report to Portfolios on their uptake to allow them to ensure that fraud risk management is being addressed across the Council.	Priorities and Values Outcomes 2, 4 & 6			PP & C2
NFI	NFI Data Submission	Investigation	High	**Legal requirement** - This is to coordinate the Councils submission for the completion of the NFI data matching process.	Priorities and Values Outcomes 2, 4 & 6		CR085 CR088 CR044	

Pro-Active Investigations	Housing Tenancy Fraud (Strategy)	Risk Based Audit	High	To provide assurance that the Council has in place adequate controls to identify any investigate this type of potential fraud (this area has been identified by the National Fraud Initiative as significant). This review will not investigate specific allegations.	Priorities and Values Outcomes 2, 4 & 6		CR085 CR088 CR044	
	Expenses claims (potential fraud issues)	Risk Based Audit	High	To provide assurance that the Council has in place adequate controls to identify any investigate this type of potential fraud.	Priorities and Values Outcomes 2, 4 & 6			
	Monitoring and billing of mobile phones (Non procurement)	Risk Based Audit	Medium	To provide assurance that the Council has in place adequate controls to identify any investigate this type of potential fraud.	Priorities and Values Outcomes 2, 4 & 6			
Housing Benefit	Housing benefit review	System Based Audit	High	To provide assurance that the Council has adequate controls in place to control and monitor expenditure on housing benefit in line with the required regulations. Including regularity and the review of the system and application assessment which was previously 3 separate reviews.	Priorities and Values Outcomes 2, 4 & 6		CR085 CR088 CR044	PP & C2
	Universal Credit	System Based Audit	High	To provide assurance that the Council has in place mechanism to control and rectify any issues relating to the implementation of the universal credit.	Priorities and Values Outcomes 2, 4 & 6		CR085 CR088 CR044	PP & C2

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	CRR	RRR
First Call Audits								
Corporate	Culture training and awareness	Risk Based Audit	High	To provide assurance to management that there are adequate processes in place to identify training requirements, to identify the correct channel and to provide and monitor the training provided.	All Values Outcomes1,7 & 8		CR082 CR045	BIS 23
ICT	Payroll/ HR system	ICT - Application Review	Medium	To provide management with assurance that the application controls are well defined and implemented and that their adequate management oversight in place to ensure that the controls are operating satisfactorily	All Values Outcomes 7 & 8		CR082 & CR079	BIS 23
Commercial Services	Review of the management process for commercial service input into major contracts.	Risk Based Audit	Medium	To provide assurance to management that there are adequate controls in place to manage the identified risk in this area.	Priorities and Values and Outcomes 1 & 8			Cos 11
Proactive Investigations	Members Allowances	Risk Based Audit	Medium	To provide management with assurance that the processes in place for this area have been appropriately assessed for the key risk. That appropriate mechanisms have	Priorities and Values Outcomes 2, 4 & 6			
Benefits	Discretionary Housing Payments Review	System Based Audit	High	To provide assurance that the Council has adequate controls in place to control and monitor expenditure on housing benefit in line with the required regulations.	Priorities and Values Outcomes 2, 4 & 6		CR085 CR088 CR044	PP & C2

Care and Support	Care & Reablement Service	Risk Based Audit	Medium	That the service is being managed with effective controls in place to ensure early inervention and prevention	2	Yes		
	Adult Provider Service	Risk Based Audit	Medium	Following the reprovision that the services that remain with the Council are well managed.	2	Yes		10,11
	Homelessness prevention controls	Risk Based Audit	Medium	Assurance that the controls in place to prevent and manage homelessness are being managed effectively.	2	Yes		
Housing Services	Housing Plus project controls	Project management	Medium	Final phase of the Future of Council Housing programme is being managed.	2			
	Anti Social Behaviour Team governance	Risk Based Audit	Medium	Following the amalgamation of two disparate ASB teams, that the statutory responsibilities are being met.	2			
	Welfare reforms management	Risk Based Audit	High	Impact of welfare reforms is being managed.	2		CR088	
CYPF - ILS	Pupil Referral Unit	Risk Based Audit	Medium	The new model (effective from 1.4.14) demonstrates effective governance and financial management and reporting arrangements across pupil referral units.	3			

Sheffield City Council

Audit Committee Report

REPORT OF	Assistant Director of Finance	**DATE** 10th April 2014

SUBJECT **Progress on High Opinion Audit Reports**

SUMMARY **The attached is the report of the Assistant Director of Finance providing an updated position on Audit Reports issued with a high opinion.**

RECOMMENDATIONS Sheffield City Council Audit Committee to note the contents of the Report and agree to remove the following audits:

- Urban Traffic Control (UTC) Special Investigation, Resources
- Risk Management, Place

FINANCIAL IMPLICATIONS CLEARED BY	No K Inman	**PARAGRAPHS**

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS	K Inman	**TEL NO.** **273 4435**

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
10 April 2014

Internal Audit Report on Progress Against High Opinion Audit Reports.

Purpose of the Report

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

Introduction

2. An auditable area receiving a 'High Opinion' is considered by Internal Audit to be an area where the risk of the activity not achieving objectives is high and sufficient controls were not present at the time of the review.

3. This report provides an update to the Audit Committee on high opinion audit reports previously reported. Where Internal Audit has yet to undertake follow up work, the relevant Portfolio Directors were contacted and asked to provide Internal Audit with a response. This included indicating whether or not the recommendations agreed therein have been implemented to a satisfactory standard. Internal Audit clearly specified that as part of this response, Directors were to provide specific dates for implementation and that this was required by the Audit Committee.

   This report also details those high opinion audits that Internal Audit plan to remove from future update reports. The Audit Committee is asked to support this.

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 and approves the removal of the following reports :

Urban Traffic Control (UTC) Special Investigation, Resources
Risk Management, Place

Laura Pattman
Assistant Director of Finance, Business Partner and Internal Audit

1. Projects – Risk Management and Reporting (Place). (Issued to the Audit Committee 10 January 2014).

As at April 2014
Internal Audit: This report was issued to management on the 23rd December 2013.   Eight recommendations were agreed in the report and the updated position is produced below. NB: The updated position was requested from the Head of Capital Delivery Service in February, which pre-dates the agreed implementation date for the recommendations. This was at the request of Audit Committee members who were keen to see the 'direction of travel'.

Ref	Recommendation	Priority	Original Responsible Officer	Original Implementation Date	Update from Dan Ladbury, Head of Capital Delivery Service. As at 19th February 2014.
1.1	The Head of Capital Delivery Service will need to follow up on the risk management and reporting arrangements for projects 90723 and 90731, and also ascertain the reasons for the slippage against the project. (90723 Abbey Lane Primary) (90731 Skinnerthorpe Road)	High	Head of Capital Delivery Service	31/03/2014	A wider Capital Programme review for EMT is well under way and will be implemented for the new financial year. This will capture roles and responsibilities. There remains an issue regarding who is identified as "Project Manager" in QTier and this will be addressed. In the meantime, risk registers for the two schemes had been prepared by the CDS Project Manager, Paul Turner, for the project. I have reviewed these with the CDS Project Manager and am confident that the risks are being managed and that an effective means of escalation is in place.
1.2	Project guidance should be followed and an initial risk management plan should be completed as part of the project start-up phase on all projects to ensure Sheffield City Council's (SCC's) exposure to risk is identified at an early stage, recorded and where appropriate mitigation strategies established and followed/ tracked.	High	Head of Capital Delivery Service	31/03/2014	This is part of the wider Capital Programme review. Additionally, the following actions to improve this are being implemented: 1) Incorporating requirements for an initial risk review at the project start-up phase within the capital

Ref	Recommendation	Priority	Original Responsible Officer	Original Implementation Date	Update from Dan Ladbury, Head of Capital Delivery Service. As at 19th February 2014.
	Project Managers for all future projects and projects currently at start-up phase should be reminded of this requirement. They should be directed to training and guidance available, i.e. E-Learning, guidance available on the Intranet, etc.				delivery process that has been developed by CDS. 2) Establishing a Capital Programme Office to monitor the implementation of projects against the delivery process to ensure the necessary deliverables are completed. 3) Raising the issue at Capital Programme Group to ensure commissioning boards/ portfolios are aware of their responsibilities as Project Sponsors.
1.3	Project guidance should be followed and appropriate risk strategies should be established as part of the project planning stage on all projects to ensure SCC's exposure to risk is reduced. Project Managers for all future projects and projects currently at the planning stage should be reminded of this requirement.	High	Head of Capital Delivery Service	31/03/2014	Please see response to 1.2 above.
1.4	Project guidance should be followed and a route for identified risks to be communicated to the project teams established, ensuring risk reviews are a standard item on Project Board agenda's. This should be completed as part of the project delivery preparation stage on all projects to ensure SCC's exposure to risk is reduced and inconsistencies in reporting are prevented.	Medium	Head of Capital Delivery Service	31/03/2014	Please see response to 1.2 above. This is a key action for Project Sponsors/ Portfolio boards to ensure is covered at their programme board meetings.
1.5	Risk management plans should be completed for all projects with sufficient detail, consistent and complete data; feature a responsible officer, have appropriate timeframes and record a review date. The Head of Capital Delivery Service should discuss with the Corporate Risk Manager whether the	Medium	Head of Capital Delivery Service	31/03/2014	Please see response to 1.2 above.

Ref	Recommendation	Priority	Original Responsible Officer	Original Implementation Date	Update from Dan Ladbury, Head of Capital Delivery Service. As at 19th February 2014.
	Councils Corporate Risk Management Framework should be adopted for all projects. All Project Managers should be informed of this decision and requirement.				
1.6	All projects should have transparent reporting arrangements in place to ensure risk management issues can be appropriately reported and discussed at the relevant area/level. All Project Managers should be informed of this requirement.	High	Head of Capital Delivery Service	31/03/2014	Please see response to 1.2 above.
1.7	Project Board minutes need adequate detail to demonstrate sufficient and robust challenge to the risks of the project.	High	Head of Capital Delivery Service	31/03/2014	Please see response to 1.2 above. This is a matter that needs to be addressed by Project boards and Project Sponsors which will be raised at CPG. This is not an action that can be fully addressed by Capital Delivery Service.
1.8	Project risk management plans should detail the escalation route and actions taken for all project risks. All project managers should be informed of this requirement.	Medium	Head of Capital Delivery Service	31/03/2014	Please see response to 1.2 above.

2. Freedom of Information Arrangements (Resources). (Issued to the Audit Committee 02 December 2013).

As at November 2013
Internal Audit: This report was issued to management on the 23 October 2013.
As at 3rd March 2014: 13 recommendations were agreed in the original report, and the updated position is reported below. NB : A new process for Freedom of Information requests has been outlined which captures the recommendations raised in this audit report. The new process will be introduced from April 2014, and as a result 11 of the original recommendations made have revised implementation dates.

Ref	Recommendation	Priority	Original responsible officer	Original implementation date	Updated position as at 3rd March 2014 provided from John Curtis, Head of Information and Knowledge Management.
2.1	A new model is proposed: 1. A central point would be established and would be responsible for: - the customer facing interfaces within the process - receiving the requests, acknowledging requests, allocating requests to Portfolios, monitoring and reporting on the progress of requests, sending out the information once collated. - providing accurate and timely monitoring information to Officers to allow them to monitor the process effectively within the Portfolio. 2. The Directors of Business Strategy would be responsible for: - ensuring that there are adequate processes in place across Portfolios to provide the information required and to ensure quality control processes. They should have in place a process and structure that ensures that FOI requests are responded to efficiently and effectively. 3. The Information Governance Team would be responsible for: - advising on complex cases (when requested) that are outside the skills/knowledge base of the Portfolio. This may include refusal notices etc. - Training on the requirements of the law. 4. Individual officers would be responsible for: - cooperating with the process and providing the information required.	Critical	John Curtis	31/01/2014 Revised Date 30/4/14	A number of workshops have been held to assess and review the FOI process. A new process has been outlined and agreed with the Executive Management Team, and portfolio representatives. This new process establishes a new information Governance Model whereby all requests will initially be reviewed and handled centrally. This will be introduced in April 2014.

Ref	Recommendation	Priority	Original responsible officer	Original implementation date	Updated position as at 3rd March 2014 provided from John Curtis, Head of Information and Knowledge Management.
	All roles and responsibilities should be clearly defined, documented and shared with all relevant parties.				
2.2	Once the new process for FOI has been established, the Policy should be amended to reflect this.	High	John Curtis	31/01/2014 Revised Date 31/3/14	A new policy has been drafted and will be assessed at the next Information Governance Board (IGB). This will be presented to the IGB in March 2014.
2.3	Where Portfolios are not meeting the targets, this should now be fully investigated. Where there is clear evidence of complexity of process, this should be rectified by review and simplification wherever possible. Where there are clear resourcing issues, this needs to be monitored and reported to the appropriate manager. Gathering estimates of staff time allocated to answering the requests will aid the process of resourcing appropriately. It is important that the individual requesting the information is contacted upfront to acknowledge receipt of the Freedom of Information request and to explain the process. Where delays occur, the requestor should be informed of this as soon as possible as regular communication may stop complaints. As all FOI requests must be answered, it is important that resources are allocated appropriately as complaints tend to increase calls on resources. The implementation of a consistent and streamlined process across all Portfolios will ensure that all Portfolios can meet the desired target.	High	John Curtis	31/01/2014 Revised Date 30/4/14	The new information governance model to be adopted proposes the use of standard, workable and consistent templates to be used. This will support consistency in our approach around refusals. This will be developed in March/April 2014

Ref	Recommendation	Priority	Original responsible officer	Original implementation date	Updated position as at 3rd March 2014 provided from John Curtis, Head of Information and Knowledge Management.
2.4	The process for refusals needs to be workable, appropriate and consistent. The central team should know where previous similar requests have been refused and the reasoning behind this. This information can then be passed to the Portfolio (the Portfolio should know if any circumstances have changed that would facilitate the providing of the information). A nominated individual within the Portfolio should make an informed decision on whether a refusal is appropriate. A decision should be made on whether the Portfolio should prepare the refusal notice (and who will authorise this) or whether this is a role to be undertaken by the Information Governance Service. For consistency, once the refusals have been prepared and approved, these should be recorded and sent out by the central point. We need to clearly monitor when we make such decisions as the Council should provide information where it is available and should not discriminate against individuals. The question should be raised that if we are refusing a request from a member of the public, would we refuse the same request coming from an MP or the press.	High	John Curtis	31/01/2014 Revised Date 30/4/14	A workshop was held with portfolio representatives which assessed overall what the council wide and portfolio requirements were. A requirements document was produced and has been assessed. A newly developed sharepoint site is being developed. This will be in March/ April 2014.
2.5	A review of how SharePoint is being used must be undertaken. Again, there needs to be a consistent approach applied that is fit for purpose. A review needs to be undertaken of what systems the Council	High	John Curtis	31/01/2014 Revised Date 30/4/14	A workshop has taken place looking at the councils requirements for a system to support the FOI process. A requirements specification was drafted and has been reviewed. Overall a newly developed SharePoint site has been created and is being modified for April 2014.

Ref	Recommendation	Priority	Original responsible officer	Original implementation date	Updated position as at 3rd March 2014 provided from John Curtis, Head of Information and Knowledge Management.
	already has in place that can monitor and report on activity and whether these would be more suitable for managing FOI requests. All staff involved in the FOI process should ideally use one system that can log and track the requests through the whole process. Staff should use this system consistently and be trained to do this.				
2.6	The process for responding to information requests is similar in Portfolios but the level of staff involvement differs. A sample should be obtained of information request responses from each Portfolio and the cost of producing these responses. There should be a consistency of approach and cost. It is obvious that the cost of involving Directors is always significantly higher than utilising business support staff. It would appear appropriate that the process should be a business support role, within a framework, which highlights where decisions need to be escalated.	High	John Curtis	31/01/2014 Revised Date 31/7/14	We are assessing what information can be collated and presented regarding FOI Requests. This will also try to assess the costs of responding to requests. A meeting has taken place with Communications to see if some information can also be made available via the internet. This will be developed Late Spring/ Early Summer.
2.7	There should be a clear protocol for training requirements. Once the new process for FOI has been established, focused and specialised training should be provided to the limited number of staff who manage and deliver the FOI processes within Portfolios and potentially, for staff who will form the central point for logging and closing the FOI requests.	High	John Curtis	31/01/2014 Revised Date 31/12/14	Training has been mandated for all Portfolio representatives and admin support. There will be a refresh of Information governance training for all staff. This will be developed over 2014/2015.
2.8	The message of the importance of the Council's obligations under the Freedom of Information Act must be shared with staff across Portfolios. Having a Corporate	High	John Curtis	31/01/2014	A meeting has taken place with Communications and messages will be within Managers brief and key brief for all staff. This messages outlines at high level the new process and our statutory responsibilities. The Intranet has also being updated to

Ref	Recommendation	Priority	Original responsible officer	Original implementation date	Updated position as at 3rd March 2014 provided from John Curtis, Head of Information and Knowledge Management.
	system that monitors refusals can also help to establish any patterns of refusals which are not appropriate.				reflect this. This was sent on March 3rd 2014.
2.9	Once the new process for FOI has been established, the issues surrounding the ownership of requests should be addressed and Portfolios should be clearly briefed. A 'hub and spoke' model with Portfolio representatives would appear to be a better way to manage this process The Council has 20 days to respond to an FOI request. The following is only an indicator of how this model could work: Day 1-2 - The central team receive, log and distribute the request to the Portfolio. They respond to the requester as appropriate. (This would appear to be a business support role). Day 3-4 - The request is rejected or accepted and is distributed to relevant Officers within service areas for information gathering. Day 5-6 - The request is accepted or rejected (for example, if it will take too long to collate the information etc.) Day 5-14 - The information is collated. Day 15-16 - The response is sent to Portfolio representatives for sense checking.	High	John Curtis	31/01/2014 Revised Date 30/4/14	A workshop has taken place with Portfolio representatives and outlining the new process that is being put into place for April 2014.
2.10	As noted in previous recommendations, the set-up of a central point for logging all requests should now be fully evaluated. The Council should have a central email and postal address that the public can easily identify and use. All FOI requests, regardless of how they enter the Council,	High	John Curtis	31/01/2014	An email address FOI@Sheffield.gov.uk has been established. A page also exists on the internet site to outline to the public this central point of access. This is already in place.

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Ref	Recommendation	Priority	Original responsible officer	Original implementation date	Updated position as at 3rd March 2014 provided from John Curtis, Head of Information and Knowledge Management.
	should be diverted to the central point for recording and monitoring.				
2.11	Going forward, information should be provided to the Portfolio representatives on the communications that have taken place with the ICO. Lessons learnt for the future should be shared with all relevant officers This could potentially be a role for the newly formed central team or for the Information Governance Service who lead on communications with the ICO. This role should be clearly established as part of the new process and the format of the contact set to suit requirements – this may simply be an email circular for example.	High	John Curtis	31/01/2014

Revised Date 31/12/14 | The audit report has been shared to Portfolio Information Risk Owners and the Information Governance Board. Further updates will be provided regarding the implementation of the new FOI Process. This will be developed over 2014/15. |
| 2.12 | Training, as recommended in recommendation number seven, should incorporate the concerns raised by the ICO. Clear advice and guidance should be provided to all Portfolio representatives on what the process should be when a review of the FOI request is required.   Any new FOI process should clearly identify how reviews will be dealt with and roles and responsibilities in relation to this should be clearly defined and documented. | High | John Curtis | 31/01/2014

Revised Date 30/4/14 | This will be clear within the guidance and process map. This will be developed in March/ April 2014. |
| 2.13 | Any new process introduced for answering FOI requests should clearly identify when it is appropriate to engage with the Information Governance Service and Legal Services. This links to the recommendation already raised on the roles and responsibilities of staff in the new process. | High | John Curtis | 31/01/2014

Revised Date 30/4/14 | This will be clear within the guidance and process map. This will be developed in March/ April 2014. |

3. UTC Special Investigation (Resources). (Issued to the Audit Committee 07 August 2013).

As at November 2013
Internal Audit: This report was issued to management on the 28 June 2013.
As at 10th February 2014: 15 recommendations were agreed in the original report. A follow up review was undertaken in November 2013 and progress against the individual recommendations is shown below. • 14 actions have been implemented • 1 action was in progress with a revised implementation date of September 2014

Concerns identified with the use of an Agency Worker

Ref	Recommendations	Agreed Actions	Priority	Responsibility & Timescale	Updated Position & Revised Timescale
3.1	All future agency/contract work undertaken for the section should be fully supported appropriate documentation which should be retained within the service area in line with the Council's decision making processes. The procurement of agency staff and the records should be retained for seven years to support the payments made. All decision making should be fully documented along with the support and guidance that has been provided by other services including HR and Procurement. All documentation relating to the recruitment of contract/agency workers should be included as part of handover arrangements when staff leave the employment of the Council. Where specialist contractors are being engaged, this should be done directly	The Network Manager Pete Vickers has located some of the records that were kept by John Lashmar relating to agency workers. These have been delivered to Audit. This information does include timesheets. Action on documentation, record storage and handover agreed. Action on tendering agreed. As part of the South Yorkshire Transport & Highway Resource Review technical resources may be provided at charged rates or on secondment from South Yorkshire Authority Partners. These rates will be compared with Agency rates offered by Reeds.	**1 - High**	Internal Audit Network Manager – Ongoing Network Manager – Ongoing	All agency staff are now sourced through the Council's contract with Reed. This ensures that the actions relating to documentation etc. are addressed appropriately. From the information disclosed at the time of the follow up, this item is now resolved. **Action Complete**

	using the normal tendering processes. This should reduce the overhead costs and increase the control. It is important that the appropriate comparators are used; this should be undertaken using the cost of a similar member of staff in the organisation plus a margin to cover the agency overhead. Due to the lack of documentation however this cannot be exemplified.	The agency firms that Traffic Information and Control teams used have been incorporated under the Reeds umbrella. Agency prices from these firms can be compared with those staff put forward by Reeds themselves. The cost of Council staff in the Network Management Group will be set out for comparison with Agency and other local authorities staff.		Network Manager by 31/03/13	
3.2	If recruiting specialist agency staff, the service must go through Reed, who are contracted by the Council to supply agency staff. There is no need to appoint staff outside the Reed agreement as the Matchtech agency used in this instance forms part of the framework agreement with Reed and were previously part of the framework agreement with Commensura, Reeds predecessor. Alternatively, if a consultant is required to undertake a distinct block of work, then Commercial Services should be contacted to support the process of the direct appointment of a consultancy as stated in Council policy.	All temporary staff recruitment now goes through REEDS; however, having looked at the rates that we are paying for staff now, and the rates that we had been paying it does seem that this process is more expensive. Agreed	**1 - High**	Network Manager	Please refer to comments above, all agency staff are now sourced via the Council's contract with Reed. **Action Complete**
3.3	Staff within the service who are identified as having the authority to procure, should now undertake additional training on the Council's procurement processes. This training should include meeting the requirements of the Council's Standing Orders and when it is appropriate to request a formal waiver to Standing Orders.	Agreed for Network Manager and Principal Engineers	**2 - Medium**	Network Manager Timescale dependent on availability of Council Courses. Aim to do so by 31/03/13. Seeking advice from Procurement about training.	Pete Vickers, Highway Network Manager, met with Commercial Services in Summer 2012 and requested appropriate training. At the time, Commercial Services were cautious about providing specific training for the Service. This will be kept under review. Commercial Services are engaged as appropriate when undertaking tendering/procurement. Internal

| | | | | | Audit confirmed with Commercial Services that appropriate engagement has taken place.

Action Complete |
|---|---|---|---|---|---|
| 3.4 | In future, all arrangements not specified within the contract for hourly paid agency staff (i.e., working from home arrangements etc.) should be clearly and fully documented and retained within the service area. As with all individuals who work from home, clearly documented output measures should be set and reviewed. All timesheets completed by agency staff should reflect actual hours worked - including details of lunchtimes/breaks etc. This will allow effective checking and authorisation of the timesheets by managers. | Agreed. We are reviewing all 'working from home' arrangements for all staff within the team.

Agreed | **2 – Medium** | Network Manager – Ongoing

When agency staff commence work. | As noted above, all agency staff are now sourced via the Council's contract with Reed. Timesheets are completed appropriately and are authorised and returned to Reed.

Action Complete |
| | Arrangements for checking and authorising timesheets should be formalised and followed. These arrangements should clearly detail how output will be checked and agreed to the supporting timesheets. Any issues should be raised immediately with the individual and reported to the Agency involved. | Agreed | | In progress | |
| 3.5 | In future, Internal Audit recommends that where concerns are raised by staff, any discussions held to address these concerns, are fully documented and retained within the service area. The actions taken to respond to issues raised should also be fully documented and retained.   Any verified issues of concern should also be raised with the relevant Agency as they may wish to | Concerns raised by staff have not been formally documented but are generally recorded in e-mails. Review meetings have been held and recorded. To set up an agreed file of concerns raised and management responses.

All relevant issues will be discussed with Commercial Services. | **1 - High** | Network Manager in discussion with Head of TT&PS by Christmas 2012.

Network Manager as and when required. | Ongoing – actions taken as and when appropriate. Commercial Services will be engaged when appropriate.

Action Complete |

	take action against the individual and are responsible for their actions. Commercial Services should also be contacted as this type of information will be used to decide if the Council should continue its relationship with the Agency.				
Intellectual Property Rights					
3.6	In future, the service should ensure that when entering in to contracts for agency workers, the issue of intellectual property rights is properly considered and included within any contract agreement. Consultation with procurement and legal professionals should ensure that this is undertaken appropriately for all contracts and consultancy work.	Agreed but is this not part of the current agreement with REEDS?	**1 – High**	Ongoing for appropriate manager	Action to be taken as and when required. **Action Complete**
3.7	As intellectual property rights have not been formalised in relation to the agency workers' employment, the issue that can be addressed relates to their claim that he worked in 'partnership' with Sheffield City Council. No evidence of a partnership arrangement could be found, the individual was merely a temporary member of staff employed through an agency. The Director of Service should write to the agency worker to state that his website is considered inaccurate and does not give a true reflection of his working relationship with the Council. He should be asked to remove this claim from the website. The letter should be checked with Legal Services prior to being sent.	The word 'partnership' is no longer included on the agency workers Website. It now says that he was 'contracted' by SCC. Not done – as no longer necessary.	**1 – High**		No further actions required. **Action Complete**

	The service area should also review the contents of the website, where concerns are identified in relation to the content and intellectual property rights, Legal Services should be contacted for the appropriate advice and support.	Not done – as no longer necessary.			
	No products or services should be endorsed without the approval of the relevant Service Director in consultation with Legal Services.	Agency staff/consultancies to be advised of this on appointment and again on commencement of work.		Network Manager/Principal Engineer Ongoing	

Development of the South Yorkshire Intelligent Transport System (syITS)

3.8	It is a requirement of the Council's project management process that all business cases should be written with clear SMART targets. These should show how the base line has been set and what the monitoring arrangements will be. It is now a requirement that all risks to the achievement of the targets are clearly defined in such documents. If the project documentation does not demonstrate these attributes, then they should be challenged by the Service Director and appropriate Programme Board.	We are checking syITS vision / outputs in original proposals / bid. These are to be restated for SY Partner approval. Improvements in journey times are now monitored by the syITS ANPR system.	**1 – High**	Head of TT&PS – January 2013	The agreed syITS 'vision statement' document has been endorsed by the members of the South Yorkshire Network Managers group and circulated to syITs Technical Group members. The vision statement is a regular item on the syITS Technical Groups meeting agenda and is used as an aid to focus discussion and targeting. The ANPR system is used to monitor journey times across South Yorkshire, the outputs from this system are used to direct and drive manual and automated interventions on sections of the highway network where we may be experiencing delays. **Action Complete at time of follow-up**

Ref	Recommendations	Agreed Actions	Priority	Responsibility & Timescale	Updated Position & Revised Timescale
	CUTLAS Database				
3.9	Management within the service should record known previous incidents and introduce a faults log for new incidents so that issues can be dealt with and patterns of incidents can be identified. This will allow for targeting of resources to critical incidents and to resolving key ongoing faults. This will also allow for meaningful discussion to take place with suppliers on critical fault resolution.	The database has been providing reliable performance information for some time now. There were implementation problems with this system which were resolved. We are talking with suppliers and Procurement about contract renewal. We have spoken to our BIS support manager and Paul Green about the possibility of closer integration with the SCC corporate IT systems. To set up a fault log.	1 – High	Network Manager and Principal Engineers – December 2012	Procurement processes are currently on-going in relation to the re-procurement of the CUTLAS Common Database. A technical specification is being prepared by Commercial Services who are fully engaged with the procurement. Internal Audit confirmed with Commercial Services that this engagement is currently taking place. **Action Complete**
3.10	Going forward the service should be integrated within the Council's IT control framework. This will include involving BIS and through them Capita. They will be able to ensure that the professional standards of the Council are maintained and also in challenging any decisions taken with regards to tendering for software - addressing the key concerns identified by Internal Audit. The use of Capita should also bring benefits in the procurement of standard hardware. There was no evidence to show that a full post implementation review of the procurement of the common database and associated software had been carried out to ensure that	We have spoken with our BIS support officers Nigel Gibbions and Ian Jellyman and exchanged correspondence with BIS Director Paul Green. Meeting to appraise out options arranged. Key issues for ITS service are capability, cost and response times from Capita. ITS Management is meeting Procurement Service to discuss way forward. Then further discussions will take place with BIS. Meeting arranged with Procurement. S.Yorks syITS partners to be included in tender bid assessment.	1 – High	Network Manager – December 2012 Network Manager and Principal Engineers Revised date for	Still to complete - ongoing As noted under agreed actions, BIS were approached to discuss the integration of the ITS function with Capita last year. It was noted at the time that BIS wanted to undertake an audit of the Service area, to fully understand how the Service could be integrated with Capita. To date, this audit has not taken place. Discussions took place regarding when the most appropriate time for the transition to take place would be – it was felt that this should be after the service was re-located from Carbrook. The move date continues to be delayed

	the system and its output and also the supplier have been fully evaluated. This should be undertaken prior to any future retendering exercise. If it is decided that re-tendering is the only option available to the service, BIS and Procurement professionals must also be involved in the process to provide appropriate support and challenge.			implementation September 2014.	therefore waiting until this takes place is becoming an issue. BIS have been contacted again recently to discuss further and it is noted that this has also been followed up. It is recommended that management continue to engage with BIS on this until the issues are fully resolved. **Action ongoing.**

Overall Procurement Processes used for the syITS project

| 3.11 | Standing Orders state that:

'All tendering must be carried out by a Procurement Specialist in adherence with the Procurement manual and associated instructions, and with reference to the Procurement Policy, issued by Commercial Services'.

It is important that the officers in this area are given additional training and support to ensure that, in future, management should always liaise directly with the relevant Category Manager within Procurement at the earliest opportunity to ensure compliance with Standing Orders and to demonstrate that the Council is receiving best value. This reflects recommendation three, made in relation to the procurement of the agency worker.
Management must ensure that all tender documentation relating to any | Our understanding is that procurement of the overall syITS system and Urban Traffic Control Room followed Council procurement processes in place at the time. Copies of the original tender documents have been delivered to Audit. All new tender processes will follow current Procurement procedures but there is an awareness that certain systems/equipment due will be provided by single suppliers.

We have not yet arranged for staff training with regards to project management. There may be an opportunity to look at more of the projects that we would like to undertake as being provided 'turnkey'. We will reduce the financial and reputational risk to TTPS by following this route. A five year maintenance agreement was included in the procurement of the | **1 – High** | Head of TT&PS/Network Manager – as and when services required.

Q4 2012/13 | As noted under previous actions, all procurement is undertaken in line with the Council's proper procurement processes. Commercial Services are currently engaged with the Service with regards to the re-tender of the ITS system. Internal Audit has confirmed with Commercial Services that this is the case. The Category Manager working with the Service has confirmed that appropriate engagement is taking place.

Action Complete |

	project or procurement undertaken is fully retained for future reference. Again, this reflects recommendation one.	common database. We are looking at all syITS assets to check if the provision of these could be tendered.

We do have documentation relating to the Corporate tender process and procurement of the common database. These are available for anyone who wishes to see them. | | | |
| **Get there Sooner Website** | | | | | |
| 3.12 | Internal Audit recommends that the relevant Directors must now review the arrangements in place and the usage figures for the website and mobile phone applications before any decisions are taken on future funding.   The project does not appear to have included any SMART targets. With a project of this kind the key is to pass on a large amount of information for a low price. Therefore, consideration must be given to site hit rates and in particular repeat users.
A short review should now also be taken on spend in this area so that lessons can be learnt for the future. This should focus on:

- The objectives of the development.
- Whether research was undertaken on similar services available.
- How budgets were devised and how costings were derived.
- How the project was monitored and managed.
- An evaluation of the outputs received and why no funding was | The development and funding of the Get There Sooner Website was agreed by SY Partners. Operational and developmental responsibility for the Get There Sooner Website lies with SYPTE. We are discussing a review of this system with SYPTE through syITS working group.

The maintenance cost of the system is covered by SYPTE. | **1 - High** | Head of TT&PS as chair of syITS Working Group | The website was reviewed as agreed and it was confirmed that it was expensive and not delivering best value for the Council. The Council no longer contributes financially to the website.

Action Complete |

	invested in promoting these services. Going forward, any project that relies on the specific input of others should have the needs supported by appropriate agreements. These agreements should clearly specify the roles and responsibilities of all involved parties.				

Variable Message Signs (VMS)

3.13	The Service Director needs to clearly establish any liabilities that would occur after the transfer of the assets under the Highways PFI scheme and how these would be funded. Going forward, it is important that as part of the business case that the full revenue consequences of capital schemes are built into project costings at the commencement of the project to cover the full projected lifespan of the asset concerned.	Head of TTaPs and Head of Highway Maintenance to review any issues arising from new maintenance arrangements as from the PFI, and agree detailed arrangements with the contractor. In the past it was recognised that the syITS scheme would not have gone ahead if the full revenue maintenance had been realised. The maintenance of all "on street" assets in the Sheffield area have been included in the Streets Ahead project.	**2 – Medium**	Head of TTaPs February 2013 Scheme Sponsor - Ongoing	As noted, all 'on street' assets included in the Streets Ahead contract. **Action Complete**

Adaptor Software – Interface with Barnsley Comet Common Database

3.14	Internal Audit recommends that the Service Director now reviews the objectives of this procurement and considers why this software has not been configured for such a period. The Service Director should ensure that the lessons learnt are taken forward in any future project work. As part of the annual appraisals process, management should also	Work is currently being done by Barnsley to further investigate the potential interface and this will be reviewed prior to further decisions being made. Corporate management systems have improved since the inception of the syITS project – as hard training and guidance on project management. Key managerial staff involved with	**1 – High**	Head of TT&PS/Network Manager – Ongoing	This issue is owned and managed by Barnsley Council. In September, Barnsley Council appointed a contractor that will set up the link between Barnsley and Sheffield City Council. The contractor installed the link at the end of Feb 2014.

	review the project management skills displayed throughout the syITS project, where training is deemed necessary, this should be provided.	syITS have left the Council. We will ensure remaining staff are given the appropriate level of training and experience.			**Action Complete**

Local Sustainable Transport Fund (LSTF)

3.15	The Project Management process adopted by the Council requires that Programme Boards need to challenge any assumptions made in projects. Internal Audit recommends that senior management are reminded of the fact that they now must challenge the assumptions made within this business case before resources are fully committed to the project. This review should include assessing: 1. The objectives and benefits that have been set down for this project. How have these been established? How realistic are the assumptions made? What KPI data have we used to establish the outcomes and benefits? Going forward, how will these be monitored and reported on? 2. Why the capability provided by significant investment from Objective 1 funding is not delivering economic and environmental benefits. What lessons can we learn from this? How will this feed in to this project? 3. How have the potential costings and benefits been calculated? Are these robust and open to scrutiny? 4. The arrangements for match	To discuss with Andy Kemp (LTP Programme Office) and Amy Harhoff Doncaster Metropolitan BC syITS LSTF lead. To challenge at LSTF Programme Board.	**1 - High**	Director of Development Services and Head of TT&PS – January 2012	Management provided the following comments: 1. The challenge to the business case, deliverability and outcomes of the syITS projects comes through the SY LSTF Programme Management team, LSTF Board and the SY Senior Leadership Group. It is also challenged by technical officers of the syITS Steering Group and the SY Network Managers Group. The final form of challenge is through the Council's Project Management process with the Project Sponsor discussing scheme development with project officers bi-monthly. This is then reported to the Service Level Project Board. SCC report on information collected through the use of syITS equipment via TRA 10023. DfT also publish data collected from their own sources which acts as an independent check on the

funding. These should be firm at the outset of the project. The idea that these can be negotiated throughout the life of the project must be challenged. The project should not go ahead if match funding arrangements are not fully agreed. 5. Benchmarking data. Is this appropriate and relevant to Sheffield? How can we prove this? Until all elements of the business case are challenged and assurances are received, senior management should not sign this business case off.				data that we collect. 2. Facilities provided through Objective 1 investment are in use now and providing the kind of economic and environmental benefits described in the original bid for funding. These include reduction in delay to traffic while travelling in those areas where the syITS project has been introduced, and the associated reduction in vehicle emitted air borne pollutants. 3. The likely benefits that were expected to be realised through this project were contained in the syITS business plan. The benefits that can be derived from this type of project are more widely accepted by industry than was the case when this project started. The outputs achieved are reported to the syITS technical group and then reviewed by the South Yorkshire Network Managers group. 4. The match funding part of this project has been met by monies provided through the LTP fund. A 'top slice' agreement is in place, agreed by all the South Yorkshire LTP partners that takes money

					directly out of the LTP fund, before any location specific spend is agreed. This part of the LTP fund covers all on-going purchase, development and operating costs for syITS infrastructure. The syITS Technical group look at the funding bid for a three year period, this passes to the South Yorkshire Network Managers group for agreement, this agreement is passed through to the South Yorkshire Strategic Leadership group for authorisation of funding. All the existing on street syITS infrastructure which was in place in 2009 was included in the Streets Ahead inventory and is maintained through that contract. Any new equipment installed on site has the ongoing maintenance provision covered by payment of commuted sums through the Streets Ahead project. 5. SCC is benchmarking itself against its South Yorkshire Partners. **Action Complete**

Internal Audit proposes to remove this audit from future update reports.

4. Self-Directed Support (Communities). (Issued to the Audit Committee 23 April 2013).

As at November 2013
Internal Audit: 22 recommendations were agreed in the original report. As at Oct 31st 2013 the reported position was as follows: •   14 actions had been implemented; •   8 actions were being progressed. Service Management then attended the Audit Committee meeting in November to provide an update for the remaining 8 actions. The managers update report concluded that 20 of the 22 agreed recommendations had been implemented.

As at April 2014
Members requested that Internal Audit verify the position reported by the Customer Accounts Team Manager in the Update Paper submitted to the Audit Committee in November 13. For completeness, Internal Audit has included the follow-up report below, which includes the updated position as provided by management and the Internal Audit conclusion following verification testing.   In summary, Internal Audit are satisfied that of 22 agreed recommendations : •   18 had been implemented; •   1 recommendation was outstanding; •   2 recommendations had revised implementation dates •   1 recommendation was stated as being complete at the time of the original audit, but no supporting information was provided during the follow-up review.

Ref	Recommendation	Priority	Original Responsible Officer	Original Implementation Date	Updated Position as at 11th March
1	The Social Care Accounts Service (SCAS) should review potential fraud risks that may arise from Direct Payments and the risk assessment should contain mitigating controls and actions for each identified risk. The Service should clearly understand the identified fraud risks and how to respond in the event that fraud is detected.	3 - Medium	Ellie Crawford - Customer Accounts Team Manager & Lee Woolway - Business Service & Systems Manager	31/07/2013	**Update Report 07/11/2013:** Action Complete. Risk assessment completed (see appendix 1). To be included in Financial Monitoring Standard Operating Procedures (SOPs). SOPs still in draft form following lean exercise and current implementation of new IT system. **Internal Audit Review:** **Action complete** A risk assessment has been completed. It does appear basic as there only three risks documented, a further review and consideration of the risks by management would be beneficial.

Ref	Recommendation	Priority	Original Responsible Officer	Original Implementation Date	Updated Position as at 11th March
2	When making amendments to bank details for the payment of Direct Payments, officers should apply the existing procedure, i.e. bank details are initially verified with a call, any amendments are detailed in a signed letter, by the service user or an individual on behalf of the service user, and then a phone call verification check is performed using the original number held prior to the amendment.	2 - High	Lee Woolway - Business Service & Systems Manager The Customer Accounts Team Manager informed Internal Audit that they have received 24 direct requests to amend bank accounts within the current financial year.	05/02/2013	**Update Report 07/11/2013:** Action Complete. This process was already in place at the time of audit however documentation was not stored to evidence this to Audit Officer completing the risk review. Documents are now uploaded to Wisdom once processed. **Internal Audit Review:** **Action Complete** Review of Wisdom showed documents uploaded.
3	Every time there is an amendment to service user's details, a Request for a New / Amend Supplier form should be consistently completed in full, and if not, then the amendment to the service user's details should not be made. It is recommended that this requirement should be communicated to all members of the Direct Payments team, with a reminder of the protocol.	3 - Medium	Lee Woolway - Business Service & Systems Manager The Service is to utilise a new electronic records management system that will provide improved document retrieval and co-ordination.	05/02/2013	**Update Report 07/11/2013:** Action Complete. The Social Care Accounts Service does not have the necessary permissions in OEO to be able to change user's details. This process is owned by the Financial Systems Support Group (FSSG). FSSG will only update details on receipt of a Request for a New / Amend Supplier Form. **Internal Audit Review:** **Action Complete** The process documented above is correct. However, it should be noted that such requests are processed by Resources Business Support rather than FSSG.
4	The process for recharging the NHS for the continuing Direct Payments that SCC provides should be documented.	3 - Medium	Liz Orme - Assistant Director of Finance (Business Partnering Communities, Revenues & Benefits) An understanding has been agreed with the Chief Finance Officer at Sheffield PCT that arrangements will	30/04/2013	**Update Report 07/11/2013:** Action Complete Protocol written, agreed and in place. £524k per calendar month (pcm) being paid in advance and subject to follow on verification and adjustment (covers DP and CAS) **Internal Audit Review:** **Action Complete** Draft protocol reviewed and verbally agreed by

					be formalised, but this has not been finalised as yet.		Eugene Walker, Liz Orme and Julia Newton, Clinical Commissioning Group (CCG).
5	A formal agreement between SCC and the Primary Care Trust (PCT) for the payment of Direct Payments should be put in place.	2 - High	Liz Orme - Assistant Director of Finance (Business Partnering Communities, Revenues & Benefits) Standing payment and reconciliation processes to be introduced.	30/04/2013 **Revised completion date: 28/02/2014**	**Update Report 07/11/2013:** Revised completion date: 28/02/2014 Process and protocols have been outlined and shared with CCG. Completion is subject to agreement between CCG and SCAS. Negotiations under way. Philip Howson leading and reporting into SCAS Senior Management Team (SMT). **Internal Audit Review:** **Action Incomplete** Draft Protocol reviewed (see recommendation 4). Revised implementation date of 28/02/2014, therefore no further review undertaken.
6	Direct Payments that can be reclaimed from the NHS for the continuing health care (CHC) that SCC provides should be maximised and unclaimed monies should be pursued.	2 - High	Hayley Dolling - Finance Manager - Communities Provider Services A CHC verification exercise is currently being undertaken to establish the service users that have not been recorded by SCC and are not being recharged for.	30/04/2013	**Update Report 07/11/2013:** Action Complete Support Plan Sign Off Record (SPSOR) outlines funding split between social care and health, this becomes purchase instructions and SCAS set up payment and recharge accordingly. For Learning Disability packages an additional memo is received from the joint panel which SCAS uses to cross-verify for re-charge and quality control. **Internal Audit Review:** **Action Complete** Confirmation from Hayley Dolling, Communities Finance Business Partnering, that payment process has been reviewed and simplified to ensure that regular monthly payment is received (currently £524k pcm, from April 2014 £640k pcm) with additional monies owed paid monthly based on Health Service calculations, this will improve current system and ensure cash flow for SCC.
7	Management should develop procedures to ensure that all service users including those with	2 - High	Ellie Crawford - Customer Accounts Team Manager	31/07/2013 **Revised**	**Update Report 07/11/2013:** Action Complete Since this Risk Review was completed the Customer

managed accounts provide monitoring returns as per the Direct Payments guidance, i.e. for the previous quarter, to verify that all payments (expenditure) are in line with the outcomes in the support plans.

If monitoring is not provided and all reasonable steps have been taken, then the Direct Payments Team should consider alternative measures, such as a Council arranged service. Any unverified past direct payments should be reclaimed.

Persistent failure by a Direct Payment Agent to provide monitoring information on behalf of a service user should result in alternative options being explored and ultimately the withdrawal of payment. Any unverified past Direct payments should be reclaimed from the Agent. | | The Customer Accounts Team Manager informed Internal Audit that procedures are currently under review and good practice is being developed.

It was also established that the final decision is an Assessment and Care Management decision.

Proactive measures are being explored including telephone contact with clients at the commencement of payment and 1st review. | **completion date –30/06/14.** | Accounts Team (CAT) has contacted everyone who receives a direct payment to bring their financial monitoring up to date.
Despite this contact there are currently 248 people who have not engaged with the team and who have not submitted financial monitoring.
An action plan has been put in place to contact these people to resolve these problems or to put alternative services in place. This work is reporting to the Recovery Operations Group on a fortnightly basis. The CAT does not have the authority to stop a direct payment if a person does not submit financial monitoring. This is because the making of this payment meets Sheffield City Council's (SCC) duty of care to that person and before a payment can be stopped arrangements need to be made to meet the persons assessed eligible needs in an alternative way.
Following a lean exercise completed by the CAT in August 2013 Standard Operating Practices (SOP) have been introduced. In summary the new process is:
1.   Person receives a pre-reminder when their monitoring is due (mid implementation)
2.   Person receives a 1st reminder letter and a telephone call once their monitoring becomes overdue (implemented)
3.   Person receives a final warning letter once their monitoring becomes a month overdue (implemented)
4.   Person is referred to Assessment & Care Management (A&CM) if their monitoring is not received within a further 28 days (implemented)
5.   A&CM should contact the person to resolve the problem or to arrange alternative services

Internal Audit Review:
Action Incomplete
Revised implementation date of 30/06/2014 |

8	Management should develop procedures to ensure that service users, Suitable People or the service users with a nominated Direct Payment agent in receipt of a Direct Payment pay for employer's liability insurance and can demonstrate that they have paid this insurance, either via a direct debit on their bank statement or an insurance certificate. Failure to provide this evidence should result in alternative measures, such as a Council arranged service being considered. Any unverified past Direct Payments for insurance should be reclaimed. It is a legal requirement for employers to purchase employers liability insurance unless exempt. Non-compliance is subject to financial penalties. The legal position of SCC should be ascertained if a claim is made, but the service user does not have employer's liability insurance.	2 - High	Ellie Crawford - Customer Accounts Team Manager The Customer Accounts Team Manager informed Internal Audit that this would become easier to control once a data management system is used. It was also established that the final decision to find alternative measures is an Assessment and Care Management decision.	31/07/2013	**Update Report 07/11/2013:** Action Complete: This was in place during the Risk Review but could not be evidenced to the Audit Officer. SCC's Direct Payment Procedures state that when someone decides to employ a Personal Assistant (PA) to meet their support needs that they take on the full duties of being an employer and that all employment arrangements must adhere to employment legislation. It also states that people should be encouraged to get employment advice and support to help them set up and maintain their employment responsibilities. It says that costs relating to this can be paid from the Personal Budget. The Direct Payment Agreement which a person must sign up to before receiving a direct payment also states 'that any legal charges and tax obligations related to any staff that the Recipient or the Suitable Person employs will be their responsibility, that they will abide by employment law and that they will be responsible for Pay As You Earn (PAYE) income tax arrangements'. An employment handbook has been developed by SCC to help people understand their employment responsibilities. When auditing an account for someone who employs a PA the CAT look for HMRC payments, payroll costs, ELI etc. If this is not present the CAT contact the person to discuss. If this is not in place the CAT advise the person of what they need to do and the consequences of not doing so. The CAT record a note in the audit system to check this has been put in place when the next monitoring is received. If these arrangements have not been put in place the CAT make a referral to A&CM. A&CM should work with the person to ensure the support is set up correctly or to make alternative arrangements. This process has been included within the CAT SOPs following the lean exercise. In addition to this business as usual procedure a targeted piece of work is in its infancy. A worker has

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					been identified to contact everyone in Sheffield who employs a PA using a direct payment to ensure that they have the necessary arrangements in place. If not she will support them to get these arrangements in place or refer them to A&CM teams where further action is required. The reporting arrangements for this work have not yet been confirmed. As a part of this work guidance tools will be developed for workers to ensure they are fully informed to support service users to get appropriate arrangements in place in the future. The legal position has always been clear that SCC is not the employer of direct payment PAs and any employment claims should be made by the employee to their employer. Legal have been fully involved in the writing and sign off of the most recent Direct Payment Agreement to ensure this relationship is clearly defined. **Internal Audit Review:** **Action Complete** Direct Payment Procedures and Employing PAs Handbook reviewed and found to contain sufficient information.
9	There should be sufficient detail in the monitoring returns provided for the audit team to be able to gain the necessary level of assurance and verify the expenditure to the outcomes. If not, and the monitoring is deemed inadequate to gain the level of assurance required, additional evidence should be requested. If the monitoring information provided is continuously insufficient, after repeated efforts to obtain more detailed monitoring, then a service user should receive additional support	3 - Medium	Ellie Crawford - Customer Accounts Team Manager Internal Audit was informed that audits of client expenditure are conducted on a "light touch" basis to seek assurance that spending is loosely in accordance with intended terms to ensure that the client is meeting their agreed outcomes. Non Compliance is referred back to Social Work Assessment Teams.	05/02/2013	**Update Report 07/11/2013:** Action Complete. This process was already in place at the time of audit however documentation was not stored to evidence this to the Audit Officer completing the Risk Review. This has now been included within the CAT SOPs. This follows the same process as above whereby if the person fails to act on CAT requests and guidance then the person is referred to A&CM so that the problems can be resolved or alternative services explored. **Internal Audit Review:** **Action Complete** Review of the SOPs confirmed that relevant guidance included.

	until adequate records are provided. If it is a Direct Payment Agent who is providing weak assurances on behalf of a service user then the continuation of Direct Payment to the Agent should be reviewed and any unverified past Direct Payments reclaimed.		The use of Purchasing Cards has been looked into, but nothing formal has been agreed.		
10	It is recommended that management conduct a review of the Direct Payment monitoring system.	3 - Medium	Ellie Crawford - Customer Accounts Team Manager Internal Audit was informed that there is no resource to fund a new system. The Service is going to use Care First and a new data management system to improve record management.	28/02/2014	**Update Report 07/11/2013:** Action Complete Systems requirements developed as part of the lean exercise in August 2013. Joint work with the Carefirst team to design forms/system for appropriate monitoring of direct payments. Implementation began 14/10/13 Target to be fully integrated by 31/01/2014. **Internal Audit Review:** **Action Complete** Evidence of system review includes SOPs, dashboard and Money Management Protocol.
11	Monitoring that has been received and has not been processed, such as information from the fourth alphabetical group and the Direct Payment Agents, needs to be processed as a matter of urgency. Any outstanding queries along with any new queries that have arisen as a result of the additional information processed needs to be identified and resolved.	2 - High	Ellie Crawford - Customer Accounts Team Manager The Customer Accounts Team Manager informed Internal Audit that resources have been allocated to resolve this situation. An up-to-date position was provided at the draft report meeting, this being: • Accounts: 2573 • Accounts up to date: 1078 • Accounts up to 6 months overdue: 649	05/02/2013	**Update Report 07/11/2013:** Action Completed in December 2012. **Internal Audit Review:** **Action Complete** A process has been introduced to stagger the provision of monitoring information supplied by Direct Payment Agents to prevent a backlog occurring in the Customer Account Team. At present performance data is: Accounts: 1925* Up to date: 955 1-2 months overdue: 285 3+ months overdue: 685** * There are approximately 550 accounts handled by

			• Accounts more than 6 months overdue: 846		Direct Payment Agents that are <u>not</u> included in the above figures. It was acknowledged that these would be classed as overdue, as the CAT is dealing with these on a staggered basis. ** Following the system changes, data for accounts 6+ months overdue is no longer available. Cases are allocated to staff on a daily basis. The Customer Accounts Team Manager is able to view individual caseloads, monitor outstanding cases and re-allocate if necessary.
12	If the reasonable steps taken to obtain a service users monitoring return repeatedly fails, then the alternative options to obtain the monitoring should be proactively explored and encouraged. Whether this is a family member / friend managing their money, a managed account or a Council arranged service.	3 - Medium	Ellie Crawford - Customer Accounts Team Manager	05/02/2013	**Update Report 07/11/2013:** Action Complete Included in CAT SOPs. Processed as outlined in action 8. Point 5 – A&CM role is to resolve problem or arrange alternative services which includes considering if someone could act as a Nominated Direct Payment Agent (receive and manage the money for the person). **Internal Audit Review:** **Action Complete** Process included in the SOPs. Also outlined in Direct payment Financial monitoring: Non Compliance Protocol.
13	Social Care Assessors should be reminded that when they perform visits to service users who receive Direct Payments themselves, via a suitable person, or via a Direct Payment Agent, they should check whether a service user's support plan outcomes are being delivered with the services being received. If inadequacies are identified then these should be reported to the Social Work	3 - Medium	Robert Broadhead - Head of Service, Assessment and Care Management & Josie Bennett - Head of Joint Learning Disabilities Service The Head of the Assessment and Care Management Service identified that this is already a requirement in	13/03/2013	**Update Report 07/11/2013:** Action Complete. Before the audit report was finalised a meeting was held to discuss its contents in draft form. At this meeting Robert Broadhead and Josie Bennett confirmed to Internal Audit that this point was part of standard procedures and clear communication had been sent to staff. It was therefore agreed at this meeting that this action would be marked as complete at the time that the report was finalised and the audit closed and it did not form part of my action plan.

	Assessment Team.		the social care review process. Where a person or representative requests additional help this is also addressed in the social care reassessment process.		**No review by Internal Audit**
14	The Direct Payments procedures which are currently being drafted and reviewed should ensure that they incorporate guidance on flexible spending to assist the Social Care Accounts Team when a service user calls.	3 - Medium	Ellie Crawford - Customer Accounts Team Manager The Customer Accounts Team Manager informed Internal Audit that this was a joint piece of work with Assessment & Care Management Teams.	31/07/2013	**Update Report 07/11/2013:** Action Complete Definition included with SOPs. **Internal Audit Review:** **Action Complete** SOPs reviewed and procedures included. Also outlined in Direct Payment Flexible Payment guidance.
15	In situations where the service user's "suitable person" is providing paid support to the service user, all vetting undertaken should be clearly recorded. In addition any expenditure should be monitored more frequently.	3 - Medium	Ellie Crawford - Customer Accounts Team Manager The Customer Accounts Team Manager indicated that they would only be able to monitor the expenditure. The initial support plan sign off is the responsibility of the Assessment & Care Management Team. The Head of the Assessment and Care Management Service stated that consideration of client representation falls within the support planning process. In addition gifting is subject to authorisation.	05/02/2013	**Update Report 07/11/2013:** Action Complete. Suitable Person's cannot provide paid support to the person. **Internal Audit Review:** **Action Complete** As stated in the Community Care for Carers and Children's Services (Direct Payments) (England) Regulations 2009 the 'suitable person' cannot provide paid support to the service user.

16	Where an employer (service user) is not employing their personal assistant correctly and not paying for expenses that they have received a Direct Payment for, additional support may be required. Any unverified past Direct Payments made to the service user, for employer expenses, should be reviewed and reclaimed.	3 - Medium	Ellie Crawford - Customer Accounts Team Manager	05/02/2013	**Update Report 07/11/2013:** Action Complete. See action under recommendation 8. **Internal Audit Review:** **Action Complete** Information contained in SOPs, Direct Payment Agreement and Employing PAs Handbook.
17	An accreditation system for organisations that receive Direct Payments from SCC should be developed, implemented and subsequently evaluated. This should include financial checks and the controls in place to monitor these companies after they receive Direct Payments.	2 - High	Ellie Crawford - Customer Accounts Team Manager This is being reviewed as part of the Non Contract Providers Money Management Protocol, which is part of the Market Development Programme.	31/07/2013	**Update Report 07/11/2013:** Action Complete. Money Management Protocol signed off and released 16/9/13. 13 money management organisations have Recognised Provider Status and other organisations are being encouraged to apply in round 2 of the application process. **Internal Audit Review:** **Action Incomplete** Incorrect information provided. At the time of the Audit Update only 10 providers (although it is acknowledged that this covers 58% of Direct Payment accounts) had Recognised Provider Status. A further update in January 2014 states that there is potential for 15 providers to have Recognised Provider status, however there is no intention to open the scheme to further applications in the future.
18	Recoverable Direct Payments should be identified and pursued. In order to facilitate this and fully maximise any monies to be returned, appropriate records should be maintained and managed.	2 - High	Ellie Crawford - Customer Accounts Team Manager The Customer Accounts Team Manager informed Internal Audit that to date this financial year (05/02/2013), £1,383,492.65 has been received in unspent monies	31/01/2014	**Update Report 07/11/2013:** Action Complete. Direct Payments are monitored and people who do not submit financial monitoring are pursued (as outlined in recommendation 8) Where appropriate any money miss-spent is recovered via invoice and the standard Council debt recovery procedure. **Internal Audit Review:**

					Action Complete Process documented in Direct Payment Financial Monitoring: Non Compliance Protocol.
19	All service user and Direct Payment Agent bank account balances should be checked to ensure that they do not hold any unspent monies. Any funds held in the account after 8 weeks should be returned to the Council, except money held for agreed future expenditure	2 - High	Ellie Crawford - Customer Accounts Team Manager	31/07/2013	**Update Report 07/11/2013:** Action Complete. £1.7m recovered via invoice financial year to date. New policy to reduce money in service user's accounts to 4 weeks plus outstanding bills implemented from 16/09/13. **Internal Audit Review:** **Action Complete** In September 2013 the wording in the Direct Payment Agreements was updated to include the reduction to 4 weeks plus outstanding bills. All existing service users were also written to and provided with a new copy of the agreement.
20	The closure income collected from estates or Direct Payment agents of the deceased service user should be reconciled to identify where it is from, whether all outstanding monies have been collected and any outstanding bills have been paid.	3 - Medium	Ellie Crawford - Customer Accounts Team Manager	31/07/2013	**Update Report 07/11/2013:** Action Complete. This process was already in place at the time of audit however this could not be evidenced to the Audit Officer completing the Risk Review. Closure process included within new CAT SOPs. Closure activity integrated onto Carefirst from 01/11/13 which will provide transparency. **Internal Audit Review:** **Action Complete** Closure process documented in SOPs. Also, a review of Carefirst showed closure activity.
21	Direct Payment Agents that have been identified as not returning monies following the death of one of its service users should be contacted and if non-compliance continues then the Direct Payments that they receive from	3 - Medium	Ellie Crawford - Customer Accounts Team Manager The Customer Accounts Team Manager informed Internal Audit that management are currently	31/07/2013	**Update Report 07/11/2013:** Action Complete. Implementation of money management protocol enables closer monitoring of organisations. Introduction of direct payment Incident reporting Form to notify contracts of any concerning activity by a direct payment provider so that appropriate action

	Sheffield City Council should be reviewed.		in the process of developing relationship management processes (including contract compliance).		can be taken. Direct payment closure process implemented including process for recovering direct payment money. Documented in SOPs. **Internal Audit Review:** **Action Complete** Money Management Protocol currently covers 10 of the 52 Direct Payment Agents, although it is acknowledged that this covers 58% of Direct payment accounts. Closure process is documented in the SOPs. Incident report pro forma in place.
22	Authorised amendments that have been received should be processed as a matter of urgency.	3 - Medium	Lee Woolway - Business Service & Systems Manager	05/02/2013	**Update Report 07/11/2013:** Action Complete. The time taken to set up new payments has been reduced from 100 days to 25 days on average. **Internal Audit Review:** **Action Complete** Currently processed in a timely manner. It is however noted that the average number of days can be significantly increased / decreased by individual cases and does not therefore appear to be a relevant target / benchmark.

5. Risk Management (Place). (Issued to the Audit Committee May 2012).

As per Jan 2013 update report
Internal Audit: No further update was requested from the responsible Director as follow up work was undertaken in October 2012. The follow up audit work concluded that of the 12 recommendations agreed, 6 had been fully actioned across all service areas within Place. Of the remaining 6 actions: • 5 had been implemented to service area level but it was acknowledged by the Director of Business Strategy & Regulation that work to further embed risk management procedures in a minority of services was on-going. He further confirmed that as such it was not appropriate to provide a firm end date for this. • 1 action with regard to the review of project risk management arrangements remained outstanding as this was pending the development of corporate risk management arrangements.

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

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

There will be ongoing review of the management of risk actions and removal of risks as appropriate in a timely manner.

As at July 2013

Progress was requested on the 6 outstanding recommendations. The Programme Manager in Place provided an update which indicted that 2 had been completed.

As at September 2013

Internal Audit requested progress on the outstanding 4 recommendations. The response is noted below.

Update on the 4 outstanding recommendations, as at February 2014:

ref	Recommendation Outstanding	Priority	Original Responsible Officer	Original Implementation Date	Update from Programme Manager, Place. May 2013
5.1	Management should ensure that: • there are formally defined processes in place for the management of risks from business activities up to strategic management; • processes comply with the SCC Risk Management Framework; • processes are endorsed by Portfolio Leadership Team; • all appropriate operational, management and senior management are made formally aware of the processes; • controls are formally defined to ensure adherence to the defined processes and • Non-compliance to the defined processes is promptly and formally reported to the appropriate Director in the first instance and the full Portfolio Leadership Team.	High	Director of Business Strategy & Regulation	02.07.12	Updated position provided from Services to Programme Manager, Place – who subsequently provided information to Internal Audit as follows: Place has been subject to changes at service level since the follow up and this is reflected in the response. Services RM Co-ordinators provided statements and evidence, to show that risk is fully embedded at all levels within the Portfolio. It was noted that a risk management plan was required for Capital & Major Project Service (C&MP) as this was a new service area. No date was provided for this. **Update position from RM Coordinator Capital & Major, Place October 2013**: There are risk management plans in place

				Revised to 31.12.13	for the different services that now make up the recently formed Capital and Major Projects. Risks are discussed at Senior Management Team (SMT) meetings and covered in service highlight reports. Work is ongoing to rebrand these plans under the 'Capital and Major Projects Risk Management Plan' and this is expected to be completed by 31.12.13. **Updated position from Director, Capital & Major Project Service, Place February 2014:** Risk Management Plan for Service now in place, as per corporate guidelines and reviewed on a regular basis.
5.2	In order to appropriately embed and comply with the principles of the Corporate Risk Management Framework, Place Risk Management procedures should require service area and service level Risk Management plans to be compiled. Co-ordinators should ensure that within their respective service areas, formal governance arrangements are in place to ensure: • all managers maintain up to date and reliable risk management plans for the activity/business unit; • all Heads of Service manage and maintain risk management plans/service risk & assurance logs for their service area that clearly demonstrate where risks have been escalated up from activities/business units risk registers; • the above documents are periodically reviewed and challenged by the Co-ordinator and are used as the basis for defining a Portfolio wide risk management plan clearly demonstrating where risks have been escalated up from the service area risk management plans where applicable. • Portfolio risk management plans and service risk & assurance logs are submitted and reported to the	High	Director of Business Strategy & Regulation	02.07.12 31.05.13	Updated position provided from Services to Denise Turner – who subsequently provided information to Internal Audit as follows: Completed for the majority of services, however, due to changes and movement in services, work has been agreed but has still to be developed in C&MP. Work is still in progress to ensure that sub service areas in Creative Sheffield have risk management plans – this is to be rectified by the end of May 2013. **Action Incomplete** **Update from RM Coordinator, Creative Sheffield, Place October 2013:** "By the deadline of the end of May, we had introduced or improved sub-section risk management plans for: The enterprise programme; RGF, The Jessica fund (SCRUDF Appendix

	Place Risk Management Group for review and are used as the basis for that Group to define the Portfolios risk management plan, again clearly demonstrating where risk have been escalated up from the services' risk management plans. As a principle, Portfolio procedures should ensure that risks are being managed at the most appropriate level within the management hierarchy. A clear governance and naming hierarchy for Place should be developed and implemented that ensures a consistent approach to Risk Management plans.			Revised to 31.12.13	4)); and The Keep Sheffield Working Fund (strategy). These represent the key elements of our work that we believe require specific plans". **Action complete for Creative Sheffield, still outstanding for C&MP – see 5.1** **Updated position from Director, Capital & Major Project Service, Place February 2014:** Risk Management Plan for Service now in place, as per corporate guidelines and reviewed on a regular basis.
5.3	Place risk management procedures should require the adoption of the minimum criteria for the risk management plan format. Risk Management Co-ordinators should ensure that all services within their respective Services Areas have up to date risk management plans, minimum criteria (as defined in the CRMF), and adequate description of risks and review of timescales.	Medium	Director of Business Strategy & Regulation	02.07.12 Revised to 31.12.13	In place for the majority of services, work planned for the new services introduced ie: C&MP, Regeneration and Development Services (RDS). No date given for this. **Action Incomplete** **Update position from C&MP, Regen & Dev Service, Place, October 2013:** C&MP – As per the comment above re Risk number 5.1. RDS – RDS has reviewed processes and re-iterated the ask around risk management. Officers have been asked for and have produced examples of how RM is embedded and these have been checked. **Action complete for RDS. Still outstanding for C&MP – see 5.1** **Updated position from Director, Capital & Major Project Service, Place February 2014:**

					Risk Management Plan for Service now in place, as per corporate guidelines and reviewed on a regular basis.
5.4	Project risk management arrangements should be reviewed to ensure that risks to all projects are properly identified and recorded in a risk register/risk management plan. Project managers should be reminded of their responsibilities regarding risk management and further training provided to ensure that project managers: • identify significant risks to a project achieving its objectives; • clearly assess the impact of each risk against the likelihood of the risk occurring to establish the inherent risk; • establish the financial cost to the project, SCC or partners if a risk materialises; & • periodically review project risk registers to ensure that they are up to date and reflect all current risks.	High	Director of Business Strategy & Regulation	02.07.12 Revised to 31.12.13	Updated position provided from Services to the Programme Manager, Place – who subsequently provided information to Internal Audit as follows: Completed for the majority of services, however, due to changes and movement in services, work has been agreed but has still to be developed in C&MP. Further work is also planned for RDS. **Action Incomplete** **Update position from C&MP, Regen & Dev Service , Place, October 2013:** **Action complete for RDS. Still outstanding for C&MP – see 5.1** For both C&MP and RDS please see comment above in risk number 5.1 **Updated position from Director, Capital & Major Project Service, Place February 2014:** Risk Management Plan for Service now in place, as per corporate guidelines and reviewed on a regular basis.

Internal Audit proposes to remove this audit from future update reports.

Sheffield City Council

Audit Committee Report

REPORT TO AUDIT COMMITTEE	DATE
	10 April 2014

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

ITEM

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 2013' report and to provide an update on fraud investigation activity within the Council during 2012/13.

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 59

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

TEL NO.
 0114 27 35587

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 2014

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 2013' 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 2013 report.

3. To provide the Audit Committee with details of fraud activity reported to Internal Audit and investigated within the authority during financial year 2012/13. Where appropriate I have included details from the 2013/14 financial year, and also work we intend to do in the current year.

Introduction

4 The Audit Commission has published it's annual 'Protecting the Public Purse 2013 – 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. The report is published near the end of the year, to allow it to amalgamate and summarise the responses that it receives from all local government and other bodies for the previous year.

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).

7 The report highlights the key messages on fraud in the public sector, namely;

- It is estimated that fraud costs the UK public sector more than £20 billion a year and local government more than £2 billion.
- In a time of austerity, preventing fraud is even more important to protect the public purse.
- Every pound lost through fraud cannot be spent on providing public services.

Key Risk Areas

8 The Audit Commission collected fraud data from almost 500 public sector organisations during 2012/13 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.

9 The following table summarises the 2012/13 survey of detected fraud in local government and I have included the previous year's figures as a comparison.

	2012/13	2011/12	Percentage Difference
Total fraud			
Total value	£178,000,000	£179,000,000	-1
Number of detected cases	107,000	124,000	-14
Average value per Case	£1,664	£1,444	+15
Housing benefit/ council tax benefit			
Total value	£120,000,000	£117,000,000	+3
Number of detected cases	47,000	54,000	-13
Average value per Case	£2,553	£2,167	+18
Council Tax discounts			
Total value	£19,600,000	£21,000,000	-7
Number of detected cases	54,000	61,000	-12
Average value per Case	£363	£344	+6
Other Frauds			
Total value	£38,400,000	£41,000,000	-6
Number of detected cases	6,000	9,000	-33
Average value per Case	£6,400	£4,556	+41

10. The above figures do not include the value of detected housing tenancy fraud.

11. 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.

12. There is a noticeable variation in the amount of detected fraud, with London Boroughs showing a 36 per cent increase, but most non- London regions showing a decline in detected fraud of between 6 and 46 per cent. It is noted that 79 Councils (mainly District Councils) reported no detected non-benefit fraud.

13. It is noted in the report that some fraud types have increased significantly in percentage terms notably "right to buy" fraud which increases year on year by 168 per cent on the previous years. The total number of 102 is still small, but due to changes in the regulations this is an area of concern and one where Internal Audit is targeting resource in the coming year.

14. The other area raised as an issue is social care fraud which at 200 cases worth £4million showed a 64 per cent increase in cases and 62 per cent increase in value since 2011/12. This is another area where Internal Audit has targeted to examine the controls in place with Sheffield City Council.

Yorkshire and the Humber

15. The report shows the detected frauds by Region in 2013/13 the number of cases was 9,700 down 6 per cent on the previous year, while the value of the frauds rose by 8 per cent to £12,400,000.

16. The report states it is not possible to say whether the decline in overall detected fraud represents lower levels of fraud committed, or less detection by Councils. It does say that it may signal the effect of reduced investigatory resources. Across England only 6 per cent of Councils are reporting an increase in resource and 22 per cent reporting a decrease with the remaining 72 per cent showing no change. In Yorkshire, 9 per cent are showing an increase, 27 per cent a decrease, while 64 per cent remain the same.

Housing Tenancy Fraud

17. 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.

18. 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.

19. The value of housing tenancy fraud was placed at £845 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. This is approximately five times the annual loss due to Housing Benefit Fraud.

20. The overall number of detected frauds of this type has increased and 2,642 homes were covered nationally in 2012/13; this is a 51 per cent increase on the previous year.

21. Due to the value of property the prevalence of this type of fraud is more significant in London and the amount detected is equivalent to 0.35 per cent of the total London council housing stock. This compares to 0.046 per cent in Yorkshire and Humber.

22. The Council has a unit who are involved in the recovery of properties where tenancy fraud is detected. Internal Audit will examine the processes undertaken by this unit as part of its 2014/15 work programme on proactive fraud investigation.

23. The report highlights the need for Council's to cooperate on this issue, so that information is passed between all social housing providers in an area.

24. In 2013, the government passed legislation that criminalises sub-letting fraud. On conviction, tenancy fraudster faces up to two years in prison or a fine of £50,000. The legislation allows Councils to prosecute tenancy fraudsters on behalf of Housing Associations. This is an area that Internal Audit will examine as part of its audit work referred to in para. 22 above.

Council Tax Fraud

25. The total amount raised from Council Tax in England in 2012/13 is in the region of £22 billion. The National Fraud Authority estimates that £135 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.

26. The level of detected cases fell by 12 per cent in 2012/13. This may be because some councils prefer to align their detection activities to the two-yearly NFI data matching timetable.

27. Sheffield City Council are currently in the process of extracting data from its systems in order to take part in the data matching exercise.

28. 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. 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 reinstatements).

29. Internal Audit conducts regular reviews of the Council Tax system to test the operation of internal controls and make recommendations where appropriate.

Trends and development in other fraud risks

30. The Protecting the Public purse highlights other areas of fraudulent activity which although not as significant as housing tenancy fraud and council tax discount fraud, warrant attention from Council's.

Business Rates

31. In 2012/13, Councils in England contributed nearly £22 billion in non – domestic (business) rates to central government. The government distributes this money across Councils. Business rate fraud includes:

• Falsely declaring mandatory or discretionary rate relief or empty property exceptions;

• Failure to declare occupancy of the property;

• Falsely claiming insolvency status to evade payment; and

• Not disclosing relevant information, for example, about the size of the company, to gain rate relief.

32. The Council has in place processes to detect and prevent these types of fraud, and they are tested as part of the Internal Audit's annual reviews of the systems in this area.

Right to Buy

33. This type of fraud appears to be on the increase as described in para. 13 above. One of the reasons behind this is the increase in right to by discounts, which has increased the incentive to undertake this type of fraud. The Council is well aware of this and has in place processes to prevent this type of fraud, and this will be tested by an Internal Audit review of this service in the coming year.

Social Care (including Direct Payment) Fraud

34. As described in para. 14 above, this type of fraud appears to be on the increase. 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.

35. The level of payments nationally has risen from 8 per cent of social service budgets in 2007/08 to 21 per cent in 2012/13. The value of these payments was £1.3 billion in 2012/13. This obviously stretches the resources to monitor the budgets, whilst at the same time increases the chances of fraud occurring.

36. 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.

37. The Council's processes for controlling this expenditure have been examined and reported to the Audit Committee and a follow up is included on this Agenda.

Procurement

38. The National Fraud Association estimates that procurement fraud costs local authorities £876 million, making it the single largest area of financial loss to fraud in local government. In 2012/13, the total value of detected fraud was £1.9 million. This type of fraud is difficult to detect and investigate.

39. 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.

40. 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.

41. Internal Audit has recently reviewed the computer application that is used to submit and evaluate tenders and no significant issues were identified. Internal Audit now includes the risk of fraud in all of its procurement and project reviews.

Housing and Council Tax Benefit.

42. National expenditure on Housing and Council Tax Benefit was £28 billion of which fraudulent claims totalled £120 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.

43. During 2012/13, 310 instances of suspected Housing and Council Tax Benefit fraud were identified for investigation. These included 3 cases involving employees. This resulted in 151 sanctions taking place.

44. it is noted that the number of sanctions was significantly lower than in the previous year where 248 were recorded. This is as result of 4 significant changes which took place during the year;

- DWP introduced the new Automated Transfers to Local Authority Systems (ATLAS) system that is intended to detect issues earlier in the process and resolve them before they become a fraud issue.

- This year was not an NFI year, and as such there were no matches from this process.

- Housing benefit matching service (HBMS), checking did not take place, as during this year staff resources were moved to other duties (with the agreement of the Council to cover temporary resources issues in the assessments area).

- The DWP amended the regulations in the process that meant that many smaller issues were dealt with via compliance, rather than being referred for fraud investigation.

45. 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.

46. The 151 cases of Housing and Council Tax Benefit fraud detected during the year resulted in the following sanctions: -

- Cautions 47

- Administrative Penalties 15

- Prosecutions 89

47. It should be noted that whist the total number of cases fell by 40 per cent, the number of prosecutions fell by only 22 per cent.

48. The anticipated introduction of universal credit did not take place during the year.

49. Central Government has also firmed up 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. Staff will now transfer from the Council's contractor to be directly employed by DWP, this is significantly different from the position that was reported previously. DWP will directly manage the investigations process for Housing Benefit. This move is expected to take place before the end of the current financial year.

Mandate Fraud

50. Mandate frauds occurs where fraudsters attempt to redirect payments intended for legitimate creditors such as large contractors. The Council was the subject to several attempted mandate frauds during 2013/14. In one instance a mandate fraud breached the Council's controls, but the payment was detected and payment prevented. The Council's processes have been reviewed in light of this. The checking has been strengthened and reiterated to staff to ensure that the potential for such breaches are minimised in future.

51. The maters were reported directly to the Police who have investigated the crime.

Annual Fraud Survey

52. During 2012/13 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.

53. 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	310
Housing fraud (Non-benefit)	3
Right to Buy fraud	0
Council Tax fraud	0
National non-domestic rates	0
Procurement fraud	2
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	3
Expenses fraud	0
Abuse of position	7
Disabled parking concession	0
Recruitment fraud	0
Other fraud	0

54. The total is a reduction of 2 from the previous year. It should be noted that all notified allegations were investigated.

55. This was not an NFI year, which tends to reduce the number of investigations. The Council has reduced the number of staff, particularly in areas such as schools (due to the increase in academies). The Street Force service has also transferred out during this period. These are areas which consistently gave rise to a number of particularly low level frauds, which are now not counted in the Council figures.

Checklist for those responsible for governance.

56. 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.

57. 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 including staff transferred in from Sheffield Homes and an e-learning course has been developed and made available on learning pool to assist any identified staff development requirements.

Recommendations

58. That the Audit Committee notes the content of this report.

59. That the Audit Committee notes the completed checklist for those responsible for governance (Appendix A)

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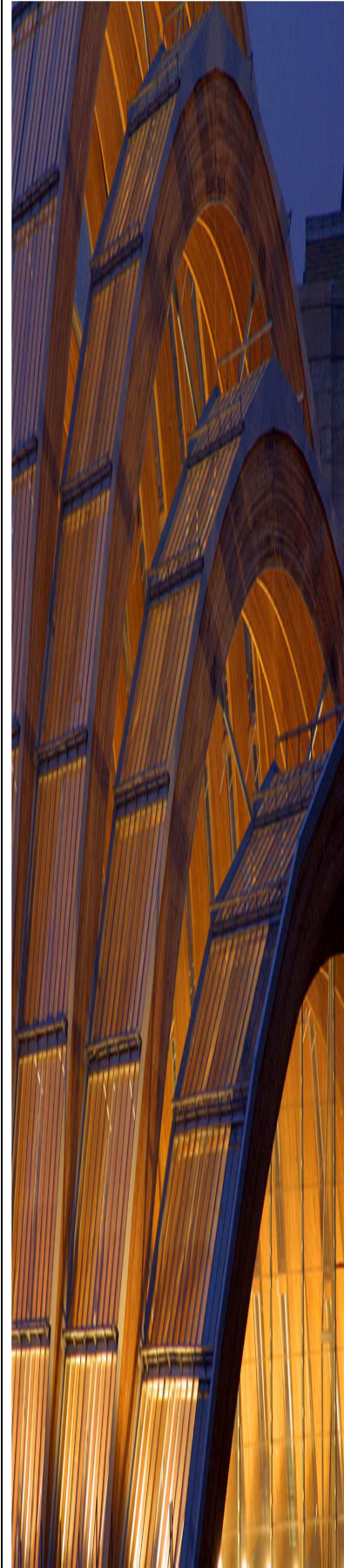
Fighting Fraud Checklist for Governance

Protecting the public purse 2013

Sheffield City Council
April 2014

Prepared by Internal Audit on Behalf of the Audit Committee

Introduction

The Audit Commission has traditionally produced a publication called protecting the public purse, which is a summary of all of the frauds and risk issues that have been identified in the previous year. The current publication was produced in November 2013 and covered the financial year 2012/13.

Appended to this document was a checklist which would allow councils to evaluate their arrangements. This document seeks to use the Audit commission publication as a basis for evaluating the arrangements in place within Sheffield City Council

This document has been prepared to highlight to the Councils Audit Committee which is referred to as "those charged with governance" that the Council has in place adequate arrangements for the mitigation detection and fraud that may occur within the Council.

General	Yes	No
1. Do we have a zero tolerance policy towards fraud?	✓	

Actions

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.

The 'zero-tolerance' message was included in fraud awareness training events which were delivered to managers/employees across SCC. This message was also incorporated into a fraud awareness course available to staff on learning pool.

	Yes	No
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with Fighting Fraud Locally?	✓	

Actions

The following fraud related strategies, policies and plans are in
place:
Financial Regulations 2013
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)
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 (Fighting Fraud Locally).
Anti-Bribery policy is currently being developed.

3. Do we have dedicated counter-fraud staff?	✓	

Actions

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.

There is a dedicated Housing Benefit Counter Fraud team located in Capita.

4. Do counter-fraud staff review all the work of our organisation?		✓

Actions

The Authority employs (via Capita) a dedicated HB / CTB fraud investigation team which receives allegations from various sources including Benefit assessment staff.

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.

Service Management has the primary responsibility for internal fraud investigation (with the support of Human Resources).

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.
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.

5. Does a councillor have portfolio responsibility for fighting fraud across the council?		✓

Actions

Ben Curran is the Cabinet member for Finance and Resources. His responsibilities align to the resources portfolio which encompassed Internal Audit. There is no specific responsibility delegated to the post to cover fighting fraud across the Council. All members of the Cabinet and are responsible for fraud in their area, and held to account by the Council as a whole.

6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	✓	

<u>Actions</u>

The Annual Governance Statement provides a level of assurance that fraud risks have been identified and addressed.
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.
An annual Risk Management report is submitted to the Audit Committee.
An annual Fraud Report, based on the Audit Commission publication, Protecting the Public Purse, is submitted to the Audit Committee.
Individual investigation reports are provided for serious incidents.

7. Have we assessed our management of counter-fraud work against good practice?	✓	

<u>Actions</u>

A full review of SCC practice compared against CIPFA's 'Red Book 2' was completed.

8. Do we raise awareness of fraud risks with:		
■ new staff (including agency staff);	✓	
■ existing staff;	✓	
■ elected members; and	✓	
■ our contractors?	✓	

<u>Actions</u>

Fraud is specifically covered in the Officer code of Conduct. It is a requirement that all agency staff must comply with the code and it is the appointing manager's responsibility to ensure that the individuals concerned are fully compliant with the code at the start of their appointment. Specific short term appointments such as those or polling clerks may not cover, the code, but specific fraud issues pertinent to these posts are specifically raised with the individuals concerned.

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.

A specific training session was organised for the Audit Committee in February 2010 and all members were invited. Members may also be given access to the ELearning package.

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).

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). The Package will be updated in the year 2014/15 and will be re-emphasised to the appropriate managers.

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.

9. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	✓	

Actions

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.

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 CIMA. These bodies provide periodic updates in areas such as fraud risks. These updates are cascaded throughout the team as appropriate.

10. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	✓	

Actions
As 9 above plus:

A formal Service Level Agreement is in place for working arrangements with Department of Work and Pensions.

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.

Internal Audit maintains an informal working arrangement with South Yorkshire Police.

11. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	✓	

Actions

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.

Where appropriate recommendations are made to improve internal controls at the conclusion of each review, implementation is confirmed with the client and followed up.

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.

12. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?	✓	

Actions

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 coordinating and advisory role in addition to responsibility for examination of some data matches.

SCC participated in the NFI Council Tax, single person discount data matching exercise for the first time in 2012 (two yearly exercise)

SCC has taken part in a NFI pilot exercise to data match Self Directed Support (Direct Payments) with other local authority and central government data.

13. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	✓	

Actions

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.

14. Do we have effective arrangements for:		
■ reporting fraud?; and	✓	
■ recording fraud?	✓	

Actions

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.

Although the above controls are in place, full compliance cannot be assured. A review of this process is to be undertaken by Internal audit during 2014/15.

15. Do we have effective whistle-blowing arrangements? In particular are staff:		
■ aware of our whistle-blowing arrangements?	✓	
■ have confidence in the confidentiality of those arrangements?	✓	
■ confident that any concerns raised will be addressed?	✓	

Actions

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. Whistle Blowing allegations are all reviewed and where appropriate fully investigated by someone independent of the area.

Although the above controls are in place, full compliance cannot be assured.

16. Do we have effective fidelity insurance arrangements?	✓	

Actions

SCC's fidelity insurance covers every employee to a limit of £10M.

Fighting Fraud with reduced Resources	Yes	No
17. Have we reassessed our fraud risks since the change in the financial climate?	✓	

Actions

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.

	Yes	No
18. Have we amended our counter-fraud action plan as a result?	✓	

Actions

The counter-fraud action plan has been reviewed to dedicate resources in to those areas of the Council where maximum benefit can be derived from the resources deployed. The level of Internal Audit resource allocated to proactive fraud has been reviewed due to diminished is allocated in line with the other risks faced. We have maintained an appropriate level of resource for proactive and reactive fraud investigation within the plan.

Face to face fraud awareness training and subsequently an eLearning package were delivered to improve staff knowledge and general alertness to acts of irregularity. This package will be updated and reemphasised to managers in the new year.

	Yes	No
19. Have we reallocated staff as a result?	✓	

Actions

Counter fraud resource, in terms of FTE, has been reduced as a result of budget pressures in Capita and Internal Audit.

Internal Audit has increased vigilance against the risk of fraud at the end of each audit, a review will take place by the Audit manager to identify any potential fraud issues, that will be considered as part of the audit planning process (or where relevant for immediate action) . In the event of a large scale investigation resources would be diverted from mainstream audit functions.

Current risks and issues	Yes	No
Housing tenancy		
20. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	✓	
Actions A revised lettings policy was presented to Cabinet on 20th March 2013. There is a vetting and validation process in place to confirm identity and eligibility of each individual prior to the letting of any property.		
21. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	✓	
Actions Home visits and day to day contact with tenants provides assurance on occupancy however resources been allocated to recover properties identified. The NFI process also identifies issues with tenancies. The 2014/15 Internal Audit plan includes a review of internal controls in respect of Housing Tenancy Fraud and the application of new offences.		
Procurement		
22. Are we satisfied our procurement controls are working as intended?	✓	
Actions Internal Audit conducted audits in this area in 2013/14. The reviews covered the Purchase to Payment review covering the creditors systems. Other reviews covered specific aspects of the process such as the procurement of external legal advice. The audits resulted in Internal Audit issuing an opinion on the risk of the service not achieving its objectives of 'Medium – Low'. Several audits have been included within the 2014/15 Internal Audit plan to cover this area.		
23. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels, and compared them with best practice?	✓	
Actions 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. All audits covering the letting or management of contracts now include testing in this area.		

Recruitment		
24. Are we satisfied our recruitment procedures:		
■ prevent us employing people working under false identities;	✓	
■ confirm employment references effectively;	✓	
■ ensure applicants are eligible to work in the UK; and	✓	
■ require agencies supplying us with staff to undertake the checks that we require?	✓	

Actions

The Council has in place controls to ensure that all of the above areas are covered, this included a requirement for the Council's Agency Staff provider to complete the appropriate propriety checking.

The number of appointments made by the Council has fallen significantly in recent years. Many of the Schools for instance have transferred to Academy status and these are not separate from the controls and auditing regimes of the Council.

Internal Audit has completed testing in this area as part of its normal auditing work, and no issues have been found in the performance of the controls linked to the above areas.

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.

Personal budgets		
25. 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?	✓	

Actions

A review of SDS Operational Controls was completed during 2012/13. Progress on the issues contained in the report was reported to the audit committee in November 2013 and subsequent to this Internal Audit has carried out a Follow-up report of this area to confirm the information provided. The result of this is that significant process has been made in this area, however some issues remain to be completed.

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.

26. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	✓	

Actions

The SCC Whistleblowing Policy is intended to be used to report inappropriate behaviour by members / officers of the council including financial malpractice.
The highest risks relating to personal budgets are associated with misuse by service user and abuse by service providers and family members.

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.

Council tax discount		
27. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	✓	

Actions

Currently undertaking a review of the new Council Tax Support which is Local Authority administered and replaced Council tax benefit in 2013/14.

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.

SCC is participated in the National Fraud Initiative, Single Person Discount data matching exercise during 2014/15 and data is to be provided in line with the requirements. The previous examination of matches two years ago resulting in the identification of circa. £156k in collectable income.

Housing benefit		
28. When we tackle housing benefit fraud do we make full use of:		
■ National Fraud Initiative;	✓	
■ Department for Work and Pensions Housing Benefit matching service;	✓	
■ internal data matching; and	✓	
■ private sector data matching?		✓

Actions

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.

Emerging fraud risks	Yes	No
29. Do we have appropriate and proportionate defences against emerging fraud risks:		
■ business rates;	✓	
■ Right to Buy;	✓	
■ Social Fund and Local Welfare Assistance;	✓	
■ council tax reduction;	✓	
■ schools; and	✓	
■ grants?	✓	

Actions

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 is currently being progressed. 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 in this area (note that academy schools are outside the scope of council governance and auditing regimes ad will have their own arrangements in place).

Sheffield City Council

Audit Committee Report

REPORT TO AUDIT COMMITTEE	DATE
	10April 2014
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 so that the Audit Committee can demonstrate to the External Auditors and wider audience that they have exercised the required oversight in order to meet the requirements of the International Standards on Auditing. This report draws together much of the work that has been undertaken by the Audit Committee in the past year.

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	No	PARAGRAPHS
CLEARED BY	K Inman	46

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS	TEL NO.
	0114 27 34435

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 2014

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 formally 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. Previously it was satisfactory for this assurance to be gained in a more informal manner for example by viewing the work of the Audit Committee.

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.

Key Requirements of the Internal Auditing Standards

3) *The key elements that are required to be covered by Members in relation to the IAS are noted below.*

4) *Under International Auditing Standard on Auditing (UK&I)240 the Council's appointed External Auditors (in the case of Sheffield City Council KPMG LLP) 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:-*

5) *(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.

6) *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.

7) *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

8) 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

9) 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 KPMG also attend the Committee to present reports and to answer questions raised.

10) The Audit committee comprises six elected Members drawn from the parties on a politically balanced basis. The Committee is chaired by Councillor Ray Satur OBE. The constitution of the group is strengthened by the inclusion of two independent non-voting Members; Rick Plews and Liz Stanley (who replaced Beryl Seaman in January 2014). These two individuals bring 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. The Chair (or representative) has also attended the Core Cities Audit Chairs Group.

Annual Accounts

11)   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).

12)   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. The External Auditors expressed satisfaction with these arrangements in their report.

13)   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.

14)   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 is the ISA 260 report). 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 2012/13 accounts were closed by the External Auditor within the required timescales. There was a delay in certification until the objections raised by the members of the public had been investigated and answered, but this did not affect the opinion on the accounts.

15)   The accounts for 2012/13 were given an unqualified opinion and value for money conclusion by the external auditor. Issues raised by the External Auditor with regard to the Digital Region Project and the outstanding debt relating to South Yorkshire Trading Standards were discussed and additional information was requested and supplied to the committee by the relevant Officers on these two issues.

System of Internal Control

16)   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 explains 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 web site to all members, staff and the general public.

17) There is an explicit requirement on Officers and Members to comply with the Council's Code of Conduct and supporting rules and regulations. As part of the sign-off process for the Annual Governance Statement, 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.

18) The Annual Governance Statement was presented to the Audit Committee in July 2013 following sign off by the Chief Executive and Council Leader. The statement only contained two items and these have been monitored by the appropriate Scrutiny Boards with the Council.

19) 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 April 2013. The new plan for 2013/14, the process for compiling the plan was contained with the report attached to the plan and noted by the committee at that time the new plan for 2014/15 is on the same agenda as this report.

20) Although copies of all reports are not shared with the Committee, the Assistant Director of Finance for this area ensure that all reports containing a "high opinion" are forwarded to the committee. Members of the committee can forward questions on these reports. Regular update reports are provided to the committee on the progress on the recommendations, contained within the high opinion reports. In addition, issues would be raised from other reports, where Internal Audit are aware of serious breaches of control arrangements or where it is felt that management are not adequately dealing with matters of concern.

21) The External Auditors have presented their report on grant certification work within the Council in January 2014.

22) The Chief Audit Executive (Senior Finance Manager) produces an independent annual report to the Audit Committee which highlights the work undertaken on the Council's control environment and her opinion on the control arrangements.

Governance Arrangements

23) The Council constantly reviews key governance documents, such as the Constitution and the Code of Corporate Governance to ensure that they are fit for purpose. These are then reported to the Audit Committee where appropriate.

24) This area is primarily the remit of the Council's Monitoring Officer, who provides reports to the Audit Committee on these issues. She also regularly attends the committee to answer any questions that Members may wish to raise.

25) A report is presented to the Committee at least twice per year that highlights the current issues with the Councils key external relationships. This also highlights the mitigation strategies that are being taken to reduce any potential risks and allows Members to question any issues raised. The latest of the reports was presented in January 2014.

26) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement.

27) A number of issues have emerged throughout the year for which specific reports and explanations were requested. The Committee has been provided with the required updates. These reports include an update on the Self Directed Support, Internal Audit report and the implementation of the Marketing Sheffield Internal Audit report. Reports were also presented on progress made concerning issues with South Yorkshire Pensions Authority, South Yorkshire Digital Region and South Yorkshire Trading Standards.

28) Internal Audit arrangements have changed over the past year following two issues. One was the need to amend the structure of the service and working arrangements internally following the retirement of the Chief Internal Auditor and the decision not to replace the post. The second major change was the change from compliance with the CIPFA code to the requirement to comply with the Public Sector Internal Audit Standards (PSIAS).

29) Both of the above issues have been highlighted to the Committee and reports were produced on how the service intended to deal with these issues. Independent training was provided to members of the Committee on the implications of the implementation of PSIAS. Update reports have also been provided in-year to the Committee on the progress of these issues. A declaration of endorsement has been prepared, which will formalise the independent access rights of the Chief Audit Executive to the Chief Executive of the Council. This process has been operating satisfactorily during the year, but will now be made explicit.

Counter Fraud Arrangements

30) Counter Fraud resources are allocated in the annual Internal Audit plan as presented to the Audit Committee.

31) The Chief Audit Executive's annual report presented to the Audit Committee in September 2013 contained a summary of Counter Fraud activity during 2012/13.

32) A "Protecting the Public Purse" report is on the agenda for the Audit Committee this evening which summarises the National fraud activity indentified by the Audit Commission survey, the number of investigations

within the authority in 2012/13 and highlights the actions taken to mitigate potential fraud in order to give assurance to the Audit Committee.

33) Fraud awareness training has been provided across the Council and to Sheffield Homes. An E- Learning package has been developed and will shortly be made available across the Council through the learning pool system.

34) Individual incidents of a material scale will continue to be reported to the Audit Committee by Internal Audit.

35) The Audit Committee can call in officers to respond to issues raised by the Audit Commission and/or Internal Audit.

36) Internal Audit have conducted four pro-active counter fraud exercises in the current financial year, these have not highlighted any specific control weakness in counter fraud processes. Issues from these reviews have been discussed and actions agreed with the relevant managers in the areas concerned. The internal audit service will continue to conduct audits in this area in the coming year.

37) 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. An audit is planned for 2014/15 to examine the council's arranges for undertaking fraud investigations.

38) The National Fraud Initiative (NFI) exercise for 2012/13 has taken place and work is almost complete across areas of the Council to examine and investigate the output form the review. The second phase of the NFI includes a data matching exercise of Single Person Discount (SPD) is currently in progress.

39) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed.

40) Although considerable progress has been made in implementing fraud awareness across the Council and the policies that underpin this, the process will continue.

Risk Management

41) The Council's Corporate Risk Manager attended the committee in April 2013, November 2013 and again today. To present to members reports on the current risk management reporting arrangements within the Council.

42) A consolidated Corporate Risk Register was presented to the Committee in November 2013 and today. This highlights the significant risks of the Council and also the mitigation strategies in place to minimise them.

43) 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. The Council's Risk manager reviews the risks identified and offers support and challenge to services on their identified risks.

44) Performance monitoring information is reported to the appropriate Scrutiny Boards, in line with their agreed plans of work. The Councils Corporate Management Team (CMT) also received a quarterly presentation on performance across the Council and the Cabinet Members have direct access to the information relevant to their portfolio. Reporting of risk is now fully integrated with the reporting of service delivery and financial issues.

45) There is a requirement that all reports that are presented to the Council's Cabinet contain the key risks that relate to the subject area, these are scrutinised by the Members. There is also a process in place to record and manage the risks in relation to programmes and projects, the key risks are reported to Members as part of the progress reports that take place in relation to these projects.

Recommendation

46) 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 International Auditing Standards.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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Audit Committee Report

Report of:	Interim Director of Legal and Governance
Date:	10 April 2014
Subject:	Work Programme 2014/15
Author of Report:	Dave Ross

Summary:

The report provides details of a proposed outline work programme for the Committee for 2014/15

Recommendations:

That members:

(a) consider the outline Work Programme and identify any further items for inclusion; and

(b) approve the work programme.
.

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 2014/15 and to identify any further items for inclusion.

2.   **Work Programme**

2.1   It is intended that there will be at least five meetings of the Committee during the year with three additional meetings arranged if required. 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 2014/15 is set out below. Members are asked to identify any further items for inclusion.

Date	Item	Author
17 July 2014	Annual Governance Statement	Gillian Duckworth (Interim Director of Legal and Governance)
17 July 2014	Summary of the Statement of Accounts	Allan Rainford (Deputy Director of Finance)
17 July 2014	Audit Committee Annual Report	Dave Ross (Legal and Governance)
17 July 2014	Progress on Audit Reports with a High Opinion	Laura Pattman (Assistant Director Finance)
17 July 2014	Financial/Commercial Monitoring of External Relationships - Progress Report	Director of Finance
25 September 2014	Annual Governance Report	Sue Sunderland (Director, KPMG)
25 September 2014	Statement of Accounts	Allan Rainford (Deputy Director of Finance)
25 September 2014	Internal Audit Annual Report	Laura Pattman (Assistant Director Finance)

13 November 2014	Annual Audit Letter 2013/14	Sue Sunderland (Director, KPMG)
13 November 2014	Strategic Risk Management/ Corporate Risk Register	Richard Garrad (Corporate Risk Manager)
11 December 2014	Additional meeting if required	
8 January 2015	Progress report on the recommendations from the External Auditor's Annual Governance Report	Allan Rainford (Deputy Director of Finance)
8 January 2015	Annual Grants Report 2013/14	Sue Sunderland (Director, KPMG)
8 January 2015	Annual Governance Statement Progress Report	Gillian Duckworth (Interim Director of Legal and Governance)
8 January 2015	Progress on Audit Reports with a High Opinion	Laura Pattman (Assistant Director Finance)
8 January 2015	Financial/Commercial Monitoring of External Relationships - Progress Report	Director of Finance
12 February 2015	Additional meeting if required	
12 March 2015	Additional meeting if required	
9 April 2015	External Audit Plan 2014/15	Sue Sunderland (Director, KPMG)
9 April 2015	Annual Audit Fee Letter 2015/16	Sue Sunderland (Director, KPMG)
9 April 2015	Internal Audit Plan 2015/16	Laura Pattman (Assistant Director Finance)
9 April 2015	Audit Commission Report on Protecting the Protecting the Public Purse/Update on Counter fraud initiatives	Laura Pattman (Assistant Director Finance)
9 April 2015	International Auditing Standards – Compliance with Internal Control/counter Fraud	Laura Pattman (Assistant Director Finance)
9 April 2015	Strategic Risk Management/ Corporate Risk Register	Richard Garrad (Corporate Risk Manager)

3.   **Recommendation**

3.1   That members:

      (a) consider the outline Work Programme and identify any further items for inclusion; and

      (b) approve the work programme.

Interim 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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