

Audit Committee

Thursday 14 April 2016 at 5.00 pm

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

The Press and Public are Welcome to Attend

Membership

Councillors Steve Jones (Chair), John Campbell, Tony Damms, Rob Frost, Dianne Hurst, Joe Otten (Deputy Chair) and Josie Paszek.

Independent Co-opted Members

Rick Plews and Liz Stanley.

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.

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
14 APRIL 2016**

Order of Business

- 1. Welcome and Housekeeping Arrangements**
- 2. Apologies for Absence**
- 3. Exclusion of Public and Press**
To identify items where resolutions may be moved to exclude the press and public.
- 4. Declarations of Interest** (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 - 10)
To approve the minutes of the meeting of the Committee held on 14 January 2016
- 6. Update on the Information Commissioner's Office Consensual Audit** (Pages 11 - 22)
Report of the Interim Executive Director, Resources.
- 7. Certification of Claims and Returns Annual Report 2014/15** (Pages 23 - 38)
Report from KPMG.
- 8. External Audit Plan 2015/16** (Pages 39 - 56)
Report from KPMG.
- 9. Annual Audit Fee Letter 2016/17** (Pages 57 - 66)
Report from KPMG.
- 10. Internal Audit Plan 2016/17** (Pages 67 - 110)
Report of the Senior Finance Manager, Internal Audit.
- 11. Internal Audit Annual Fraud Report** (Pages 111 - 132)
Report of the Interim Director of Finance.
- 12. Public Sector Internal Auditing Standards External Assessment Process 2016/17** (Pages 133 - 140)
Report of the Senior Finance Manager, Internal Audit.
- 13. Compliance with International Auditing Standards** (Pages 141 - 150)
Report of the Interim Director of Finance.

- 14. Revised Terms of Reference** (Pages 151 - 156)
Report of the Director of Legal and Governance.
- 15. Work Programme** (Pages 157 - 162)
Report of the Director of Legal and Governance.
- 16. Dates of Future Meetings**
To note that the next meeting of the Committee will be held on 14 July 2016 at 5.00 p.m.

(Please note that provisional dates are being arranged for 2016/17)

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 not:

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

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

You **must**:

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

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

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

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

- Any contract which is made between you, or your spouse or your civil partner (or a body in which you, or your spouse or your civil partner, has a beneficial interest) and your council or authority –
 - under which goods or services are to be provided or works are to be executed; and
 - which has not been fully discharged.

- Any beneficial interest in land which you, or your spouse or your civil partner, have and which is within the area of your council or authority.
- Any licence (alone or jointly with others) which you, or your spouse or your civil partner, holds to occupy land in the area of your council or authority for a month or longer.
- Any tenancy where (to your knowledge) –
 - the landlord is your council or authority; and
 - the tenant is a body in which you, or your spouse or your civil partner, has a beneficial interest.
- Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -
 - (a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and
 - (b) either -
 - the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or
 - if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

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

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Audit Committee

Meeting held 14 January 2016

PRESENT: Councillors Steve Jones (Chair), John Campbell, Tony Damms, Joe Otten (Deputy Chair) and Josie Paszek.

Co-opted Independent Members

Rick Plews and Liz Stanley.

Officers in attendance

Eugene Walker (Interim Executive Director, Resources)
Dave Phillips (Interim Director of Finance)
Richard Jones (Assistant Director of Finance)
Kayleigh Inman (Senior Audit Manager, Internal Audit)
Tim Cutler (Partner, KPMG)
Alison Ormston (Senior Manager, KPMG)
Gillian Duckworth (Director of Legal and Governance)
Dave Ross (Principal Committee Secretary)

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1. APPOINTMENT OF CHAIR

1.1 In the absence of the Chair (Councillor Steve Jones) at the start of the meeting, the Deputy Chair (Councillor Joe Otten) Chaired the meeting for items 1 to 9.

2. APOLOGIES FOR ABSENCE

2.1 Apologies for absence were received from Councillors Dianne Hurst and Rob Frost.

3. EXCLUSION OF PUBLIC AND PRESS

3.1 No items were identified where resolutions may be moved to exclude the press and public from the meeting.

4. DECLARATIONS OF INTEREST

4.1 There were no declarations of interest.

5. MINUTES OF PREVIOUS MEETING

5.1 The minutes of the meeting of the Committee held on 12 November 2015 were approved as a correct record.

Matter Arising

5.2 In response to a question from a member of the Committee, it was noted that the Committee's Terms of Reference had last been reviewed in 2010.

5.3 **Resolved:** That the Director of Legal and Governance be requested to review the Terms of Reference for consideration at the meeting of the Committee on 14 April 2016.

6. UPDATE ON THE ADULT SOCIAL CARE PROGRAMME

6.1 The Interim Executive Director, Resources, introduced a progress report of the Director of Business Strategy, Communities that provided an overview of the completed and ongoing management improvement actions in Adult Social Care. The report gave details of a management update regarding the interventions and change processes that had been undertaken throughout the Communities and Resources Portfolios and further actions that were planned. This included the actions taken in respect of Strategic Planning, Leadership and Direction, Financial Control and Responsibility, Partnership and Change Management, Management and Performance Management Information and general cultural issues.

6.2 The Interim Executive Director explained that the Committee had received a number of update reports previously and that there had been a significant number of changes since the original report to the Committee in July 2014 in terms of the landscape and context. It was therefore proposed to return to reporting through the normal audit reporting cycle.

6.3 Officers responded to questions from members of the Committee:-

6.3.1 In respect of actions where there had been no progress and a request for an indication of the type of controls that were in place, the Senior Audit Manager commented that, for example, on the Short Term Intervention Team, a number of the original recommendations had been superseded and the focus was on the current structure for the Team. The Interim Director of Finance indicated that there were 28 audits in the Internal Audit Plan and this demonstrated the amount of Internal Audit efforts in these areas. It was proposed to circulate a summary for members of the Committee on audits being carried out in the 2015/16 Plan in the Communities Portfolio.

6.3.2 The Assistant Director of Finance agreed to inform members of the Committee if all the reassessments had been undertaken. This was in response to a question on the model of Self Directed Support and personalisation that had been undertaken and reference in the subsequent report on the agenda indicating that whilst the new Resource Allocation System tables to support the setting of personalised budgets was underway, they had not been implemented, pending a full financial assessment.

6.3.3 On the issue raised on how was performance of the service in the delivery of care affected by this process and what had been the impact, the Interim Executive Director indicated that the key point was to improve the balance of the quality of the service as well as the financial position. A significant amount of performance monitoring information had been submitted to various meetings, including the Executive Management Team, to improve how quickly people were assessed. There had been improvements to the way the service was delivered and managed and in the monitoring of the financial position. It was agreed that information would

be circulated to members of the Committee on the impact of that process.

6.3.4 On the general cultural issues and whether morale was moving in a positive direction, the Interim Executive Director commented that the employee opinion scores had previously been the lowest in the Communities Portfolio but these were now improving and there was a significant amount of work being undertaken on rebuilding the teams.

6.4 **Resolved:** That the Committee:-

- (a) agrees that as it was sufficiently appraised of management action in relation to Adult Social Care it would accept the report as the final progress report and to return to business as usual Internal Audit monitoring processes;
- (b) notes the improvement work that had been undertaken to date with regard to Adult Social Care; and
- (c) requests that the following information is circulated to members of the Committee:-
 - (i) a summary of audits being carried out in the 2015/16 Internal Audit Plan in the Communities Portfolio (Senior Audit Manager);
 - (ii) data on the current performance and impact of the improvements in Adult Social Care (Interim Executive Director/Director of Business Strategy, Communities); and
 - (iii) confirmation that all the reassessments in relation to Self Directed Support had been undertaken (Assistant Director of Finance).

7. UPDATE ON FINANCE SERVICE ACTIONS ARISING FROM THE KPMG REPORT ON ADULT SOCIAL CARE

7.1 The Assistant Director of Finance introduced the report that intended to provide the Committee with assurance that the issues raised in the KPMG review report were being appropriately addressed within the Finance Service. He had been in post since January 2015 and had drawn up a list of actions linked to the recommendations in the KPMG report and these were designed to link to the ongoing work within Finance to address the financial management issues within Communities as well as wider work across the Communities Portfolio. The report provided a brief update on the actions to date from July 2015 and January 2016 relating to:

- Improvements to monthly monitoring and reporting
- Detailed review of forecasting process
- Review of finance business partnering activity across Communities
- Communications around Communities' financial performance
- Review of financial governance

7.2 Officers responded to questions from members of the Committee:-

- 7.2.1 In terms of KPMG's view on the report, Tim Cutler, Partner, KPMG indicated that this was outside of the scope of the audit and it was not an area that they would routinely examine.
- 7.2.2 In respect of further improvements, the Assistant Director of Finance referred to the new Resource Allocation Tables that were to be implemented, pending an assessment of the full financial impact that would be addressed as a priority. There would be checks on whether people went over or under their personal budgets.
- 7.3 **Resolved:** That the Committee notes the report and that progress will be dealt with through the business as usual Internal Audit monitoring processes.

8. PROGRESS AGAINST HIGH OPINION AUDIT REPORTS

- 8.1 The Senior Audit Manager introduced a report providing an update on progress made against recommendations in audit reports that had been given a high opinion and proposing that six audits were removed from the action tracker.
- 8.2 Officers responded to questions from members of the Committee:-
- 8.2.1 In respect of Schools using independent payroll services, it was noted that the Governing Bodies and Head Teachers had been made aware of the recommendations from the audit and they were responsible for their implementation. Internal Audit would follow up any recommendations to be implemented centrally within the Council.
- 8.2.2 Regarding the high number of recommendations that had been deferred and whether there were any broader issues to address, the Senior Audit Manager referred to the changes in senior management at a service level and that an allowance had been made for that to take effect but implementation was still being monitored and those audits would remain on the tracker. The Interim Executive Director referred to significant management changes in three of the areas (Short Term Intervention Team, Car Parking and Markets) but this had had a positive impact. With regard to the External Funding Corporate Review, the changes were being implemented and were making a difference.
- 8.2.3. On the Markets Service, the Senior Audit Manager indicated that the risks would be considered as part of the 2016/17 Internal Audit planning process. The Interim Executive Director commented that there was new management in the Service.
- 8.3 **Resolved:** That the Committee notes the report and agrees that the following audits are removed from the action tracker:-
- Markets Service
 - Assisted Cycle Purchase Scheme
 - Blue Badges Assessment Process
 - School Attendance Multi Agency Support Teams
 - Schools Using Independent Payroll Services

- Short Term Intervention Team

9. SUMMARY OF THE KEY RECOMMENDATIONS MADE IN THE MEDIUM-HIGH OPINION AUDIT REPORTS FROM 2014/15

- 9.1 As requested at the meeting of the Committee held on 12 November 2015, the Senior Audit Manager submitted a report providing a summary of the key recommendations and executive summaries for the medium-high opinion audit reports issued by Internal Audit in 2014/15.
- 9.2 The Senior Audit Manager responded to questions from members of the Committee. Regarding what was the trigger for an audit being given a high or medium-high rating, it was suggested that the methodology that was used could be circulated to members of the Committee for information. There were no audits that were not making progress but there may be some with slippage of the implementation dates.
- 9.3 There was discussion on whether a tracker report, possibly by exception, could be submitted to the Committee on the progress of the medium-high audits.
- 9.4 **Resolved:** That the Committee:-
- (a) notes the report; and
 - (b) requests the Senior Audit Manager to (i) circulate to members of the Committee the methodology for assigning audit opinions based on the residual risk rating and the number and priority level of the recommendations and (ii) report by exception to the Committee on medium-high opinion audits where sufficient progress had not been made.

(Note: Councillor Steve Jones entered the meeting at this point in the proceedings and Chaired the remainder of the meeting).

10. EXTERNAL AUDITOR ARRANGEMENTS FROM 2018/19

- 10.1 Tim Cutler, Partner, KPMG introduced a briefing paper on considerations for the local government sector in appointing their external auditor. This resulted from the closure by the Government of the Audit Commission on 31 March 2015 who were previously responsible for appointing external auditors to local government. The existing contract for external audit appointments has been extended by one year to include the audit of the 2017/18 financial year.
- 10.2 Alison Ormston, Senior Manager, KPMG stated that the paper set out the issues the Council should consider and one of these was that the new regulations required the Council to have an Audit Panel that would be responsible for recommending who the external auditor should be. The Panel must include a majority of independent non-elected members, an independent Chair and should be established by January 2017. The paper also set out procurement options and other factors to consider in appointing the external auditor.

- 10.3 Tim Cutler added that he would circulate the CIPFA guidance that had been issued that week on Audit Panels. If a sector-led approach was adopted then an Audit Panel was not required.
- 10.4 The Interim Director of Finance reported that the process had started and this included discussion with the Core Cities. The Interim Executive Director of Resources commented that it would make sense for a joint procurement with the Sheffield City Region but this would depend on whether there was a joint South Yorkshire procurement.
- 10.5 In terms of the timescales and deadlines, it was noted that the new external auditor had to be appointed by 31 December 2017. Tim Cutler suggested not leaving the appointment too late as some interested firms may have taken up other contracts.
- 10.6 Members discussed the need to be kept informed and Tim Cutler indicated that he would provide further information as it became available.
- 10.7 **Resolved:** That the Committee:-
- (a) notes the briefing paper;
 - (b) agrees that there would be further consideration of the arrangements for the appointment of the external auditor at the Committee meeting on 14 July 2016; and
 - (c) requests that the CIPFA guidance on Audit Panels is circulated to members of the Committee.

11. WORK PROGRAMME

- 11.1 The Director of Legal and Governance submitted a report providing details of the Committee's work programme to July 2016 and referred to the additional items agreed earlier in the meeting.
- 11.2 **Resolved:** That the Committee approves the work programme with the addition of items on the Review of the Committee's Terms of Reference in April and further consideration of the Arrangements for the Appointment of the External Auditor in July 2016.

12. DATES OF FUTURE MEETINGS

- 12.1 It was noted that meetings of the Committee will be held at 5.00 p.m. on:-
- 11 February 2016 (additional meeting if required)
 - 10 March 2016 (additional meeting if required)
 - 14 April 2016
 - 14 July 2016



Audit Committee Report

Report of: INTERIM EXECUTIVE DIRECTOR, RESOURCES
EUGENE WALKER

Date: 14th April 2016

Subject: UPDATE - INFORMATION COMMISSIONER'S
OFFICE (ICO) CONSENSUAL AUDIT

Author of Report: JOHN L CURTIS HEAD OF INFORMATION AND
KNOWLEDGE MANAGEMENT

Summary:

The paper attached is a follow –up report from the Information Commissioner's Office following a consensual audit they undertook in March 2015.

This consensual audit focused on freedom of information, subject access requests and data sharing mainly within Communities, and Children & Young People.

The attached paper outlines a review of progress made since the recommendations from the consensual audit.

This paper provides an update from a paper presented to the Audit committee on the 11th September 2015.

Recommendations:

To note the contents of the ICO Follow-up Audit report.

Background Papers:

ICO Follow-up data protection audit report (attached)

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
N/A
Relevant Cabinet Portfolio Lead
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

UPDATE – INFORMATION COMMISSIONER’S OFFICE CONSENSUAL AUDIT

1.0 INTRODUCTION

- 1.1 Sheffield City Council is committed to meeting its statutory duties around how it handles, processes and deals with requests for information (personal and non-personal information). This has been demonstrated through revised and improved council wide processes around how we process and handle requests for Information, as well as providing staff training (e-learning), which is mandatory for all staff. Sheffield City Council has a legal responsibility as a Data Controller to ensure it meets its statutory duties.
- 1.2 Sheffield City Council has also acknowledged the value and importance of appropriate, safe and secure information sharing to support service delivery and change and has demonstrated this through its work and commitment to this area. This has recently included a council wide review of information sharing.
- 1.3 The Information Commissioners office (ICO) who act as the regulator for primarily the Data Protection and Freedom of Information Acts, wrote to the council to offer a free consensual Audit which took place in March 2015. A report was presented to the Audit Committee on 11th September 2015.
- 1.4 The report attached provides a follow up undertaken by the ICO which reviews progress made against the 69 recommendations from the ICO’s consensual audit.

2.0 SUMMARY

- 2.1 The ICO Consensual Audit reviewed three areas. These areas were Freedom of Information (FOI) and Subject Access Requests (SAR’s) as well as Information Sharing. Communities, and the Children’s and Young People portfolios, and Information and knowledge Management within Business Change and Information Solution, Resources were audited.
- 2.2 In total 69 recommendations were made by the ICO which ranged from areas such as providing training to staff, to updating policies and procedures.

3.0 MAIN BODY OF THE REPORT

- 3.1 The ICO Consensual Audit provided an opportunity to Sheffield City Council to assess how it fulfilled its responsibilities.

- 3.2 The initial recommendations from the ICO Consensual Audit were reviewed and all 69 recommendations were accepted or partially accepted. An action plan was developed and work progressed.
- 3.3 It should be noted that of the 69 recommendations, progress has been made in all 69 areas. Of the 19 freedom of information recommendations, 14 are completed with 5 partially complete. Subject access requests had 28 recommendations, and of those 19 are completed, with 9 partially completed. Information sharing had 22 recommendations of which 5 have been completed, and of those 17 are partially completed.
- 3.4 It should be noted that there is ongoing work to ensure that significant progress is made regarding those recommendations that are partially completed. Going forward more priority will be given to recommendations around Information sharing. Internal audit will monitor progress made against these partially completed recommendations
- 3.5 The ICO stated overall that they are pleased with the progress that has been made, in particular around the statutory areas of freedom of information and subject access requests. The ICO also outlined that the management response to the ICO consensual Audit confirms Sheffield City Council's commitment.
- 3.6 The ICO has outlined (within the report attached) areas which should be given priority. The ICO does not intend to review again progress made against those recommendations partially completed. Internal Audit will monitor progress made against these partially completed recommendations
- 3.7 There are no known financial implications at the time of writing this report.

4.0 RECOMMENDATIONS

- 4.1 To note the contents of this covering report and the follow-up report from the ICO.

Sheffield City Council

Follow-up data protection audit report

Auditors: Alexandra Lamb, Lead Auditor

Data controller contacts: John Curtis, Head of Information and Knowledge Management

Distribution: John Curtis, Head of Information and Knowledge Management

Date issued: **31 March 2016**

The matters arising in this report are only those that came to our attention during the course of the audit and are not necessarily a comprehensive statement of all the areas requiring improvement.

The responsibility for ensuring that there are adequate risk management, governance and internal control arrangements in place rest with the management of Sheffield City Council.

We take all reasonable care to ensure that our audit report is fair and accurate but cannot accept any liability to any person or organisation, including any third party, for any loss or damage suffered or costs incurred by it arising out of, or in connection with, the use of this report, however such loss or damage is caused. We cannot accept liability for loss occasioned to any person or organisation, including any third party, acting or refraining from acting as a result of any information contained in this report.

Contents

1. Background (follow-up assessment) page 04
2. Follow-up audit conclusion page 05
3. Summary of follow-up audit findings page 06

1. Background

- 1.1 The Information Commissioner is responsible for enforcing and promoting compliance with the Data Protection Act 1998 (the DPA). Section 51 (7) of the DPA contains a provision giving the Information Commissioner power to assess any organisation's processing of personal data for the following of 'good practice', with the agreement of the data controller. This is done through a consensual audit.
- 1.2 The Information Commissioner's Office (ICO) sees auditing as a constructive process with real benefits for data controllers and so aims to establish a participative approach.
- 1.3 The original audit took place at Sheffield City Council's (SCC) premises between 17-19 March 2015 and covered freedom of information requests, subject access requests and data sharing. The ICO's overall opinion was that there was limited assurance that processes and procedures were in place and being adhered to. The ICO identified considerable scope for improvement in existing arrangements in order to achieve the objective of compliance with the DPA.
- 1.4 69 recommendations were made in the original audit report. SCC responded to these recommendations positively, agreeing to formally document procedures and implement further compliance measures.
- 1.5 The objective of a follow-up audit assessment is to provide the ICO with a level of assurance that the agreed audit recommendations have been appropriately implemented to mitigate the identified risks and thereby support compliance with data protection legislation and implement good practice.
- 1.6 A desk based follow-up took place in March 2016 to provide the ICO and SCC with a measure of the extent to which SCC had implemented the agreed recommendations. This was based on management updates from SCC signed off at Board Level.

2. Follow-up audit conclusion

Scope area	Number of recommendations in each scope area from the original audit report	Number of actions complete, partially complete and not implemented.
Freedom of Information requests	19	14 Complete 5 Partially complete 0 Not implemented
Subject Access Requests	28	19 Complete 9 Partially complete 0 Not implemented
Data Sharing	22	5 Complete 17 Partially complete 0 Not implemented

Section 3 below summarises the main findings of this review and highlights any residual high risk areas.

3. Summary of follow-up audit findings

- 3.1 The auditor was pleased to note significant progress across freedom of information and subject access scope areas and was encouraged by the evidence that SCC volunteered to support the improvements detailed in its Action Plan. Areas where improvements are particularly noteworthy include:
- A target of 95% has been approved by the Information Governance Board (IGB) to respond to FOI requests within the required time frame.
 - FOI compliance statistics now form part of IGB's standard agenda.
 - Quality assurance is carried out on FOI requests to ensure the correct dates are being recorded.
 - A Standard Operating Procedure (SOP) has been amended to explain how SCC deals with FOI requests involving partner organisations.
 - SAR guidance has been added to SCC's website and a direct link to the guidance is presented prominently on the homepage.
 - Template letters and guidance have been published on the intranet for staff to use when responding to SAR's to ensure consistency.
 - SAR compliance statistics now form part of the IGB's standard agenda.
 - SCC has ensured that the Centre for Excellence data sharing template will be promoted for use with all new data sharing arrangements.
 - The minimum security standards that need to be adopted for the transfer of records in an information sharing agreement have now been documented.

3.2 The ICO recommends that SCC's commitment to completion of the Action Plan continues to ensure that all risks identified in the audit are mitigated as far as possible. Priority should be given to the data sharing scope because a number of these recommendations have only been partially completed. We have also highlighted some other areas that SCC should consider giving priority to:

- Implementing new training for SCC staff in relation to recognising an FOI request, staff responsible for responding to FOI requests, FOI portfolio representatives, SIRO's and senior members of SCC.
- Updating e-learning training to bring it in line with current SOP requirements.
- Reviewing contracts with partner organisations to ensure that there are appropriate clauses in place to allow proper processing of FOI requests.
- Reviewing existing contracts with data processors to ensure that a SAR handling clause is inserted.
- Completing regular quality assessments of SAR's to ensure that information has been withheld correctly.
- Updating SCC's Information Asset Register (IAR) and assigning owners to information assets.
- Finalising the data sharing policy.
- Recording the nature and justification of sharing personal data as recommended.
- Recording the relevant exemptions or conditions for processing personal data within information sharing agreements.
- Completing a training needs analysis to identify staff that require specialised training in information sharing.
- Incorporating security incident procedures into data sharing policies.
- Ensuring that one off disclosures of personal information are logged as recommended.
- Ensuring quality checks are carried out to assess the appropriateness of one off disclosures.

- 3.3 It was also noted that a target of 85% for SAR completion has been accepted by the IGB, however, the ICO recommends that the SAR completion target should be at least 95%. This would also bring SCC's SAR completion target in line with their FOI target of 95%.
- 3.4 The management response summary confirms SCC's commitment to appropriate completion of all actions.
- 3.5 Any queries regarding this report should be directed to Alexandra Lamb, Lead Auditor.
- 3.6 Thanks are given to John Curtis, Head of Information and Knowledge Management who was instrumental in providing the information to complete the follow-up audit.

AUDIT COMMITTEE REPORT – 14 APRIL 2016

CERTIFICATION OF GRANT CLAIMS AND RETURNS 2014/15 Report from KPMG.

Recommendation

That the report is noted.

Category of Report - Open

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cutting through complexity

Page 25

KPMG Annual Report on grants and returns work 2014/15

Sheffield City Council

January 2016



Contents

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	Page
■ Headlines	2-3
■ Summary of certification work outcomes	4-7
■ Fees	8
■ Recommendations	9-10
■ Prior year recommendations	11

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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Introduction and background

This report summarises the results of work we have carried out on the Council’s 2014/15 grant claims and returns. This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2014/15 is as follows:

- Under the Public Sector Audit Appointment arrangements we certified one claim – the Council’s 2014/15 Housing Benefit Subsidy claim. This had a value of £195.9 million.
- Under separate assurance engagements we certified 2 claims/returns as listed below:
 - Pooling Capital Receipts; and
 - Teachers’ Pension Return.

Page 4

Certification results

Our work on the Council’s Housing Benefit Subsidy claim was subject to a qualification letter.

Qualification issues that have arisen both this year and in previous years are shown below:

- The following issues had no impact on subsidy:

Area tested	Reason qualified
The benefits software reconciliation (benefit granted to benefit paid)	There was an explained difference of £139 showing on the reconciliation between benefit granted and benefit paid.
In year reconciliation cells	There were rounding issues (£1 to £2) on all three in-year reconciliation cells.
Backdate cells	There were inappropriate cases included in the backdate cells. The pro rata value relating to this overstatement is calculated as £25,946. It should be noted that these cells have no impact on subsidy.
Taxable income received by claimants	Taxable income was found to be inappropriately calculated on some of the cases tested however, these were all underpayment errors so there is no impact on subsidy.

- The other reported issue had a £15 impact on subsidy:

Area tested	Reason qualified
Board and Lodging eligible rent calculation	Our tested cases proved that ineligible services provided by the landlord, such as meals or laundry costs, were incorrectly included in the rent calculations. Due to the minor values affected the prorata was only £15 overstatement of cell 012, which caused a loss of £15 subsidy.

Pages 5-6

Page 27

<p>Certification results continued</p>	<p>New qualification issues – neither have any impact on subsidy:</p> <table border="1" data-bbox="371 362 1829 649"> <thead> <tr> <th>Area tested</th> <th>Reason qualified</th> </tr> </thead> <tbody> <tr> <td>Re-classification between cell 098 and 099 relating to rental expenditure limits.</td> <td>Although some cases were correctly reclassified from cell 099 to cell 098 this year on the claim form, only the adjustments that affected the 2014/15 subsidy year were made. Prior period benefit awarded was not adjusted into the appropriate cell. Subsidy is not affected as the cell values attract the same level of subsidy.</td> </tr> <tr> <td>Board and Lodging</td> <td>An underpayment was made to a claimant, with a total value of £131.54, due to a manual assessment error overlooking two weeks of claimant benefit. Underpayments have no impact on subsidy.</td> </tr> </tbody> </table> <p>Our work on the other grant assurance engagements did not highlight any qualification issues to report.</p>	Area tested	Reason qualified	Re-classification between cell 098 and 099 relating to rental expenditure limits.	Although some cases were correctly reclassified from cell 099 to cell 098 this year on the claim form, only the adjustments that affected the 2014/15 subsidy year were made. Prior period benefit awarded was not adjusted into the appropriate cell. Subsidy is not affected as the cell values attract the same level of subsidy.	Board and Lodging	An underpayment was made to a claimant, with a total value of £131.54, due to a manual assessment error overlooking two weeks of claimant benefit. Underpayments have no impact on subsidy.	<p>Page 6</p>
Area tested	Reason qualified							
Re-classification between cell 098 and 099 relating to rental expenditure limits.	Although some cases were correctly reclassified from cell 099 to cell 098 this year on the claim form, only the adjustments that affected the 2014/15 subsidy year were made. Prior period benefit awarded was not adjusted into the appropriate cell. Subsidy is not affected as the cell values attract the same level of subsidy.							
Board and Lodging	An underpayment was made to a claimant, with a total value of £131.54, due to a manual assessment error overlooking two weeks of claimant benefit. Underpayments have no impact on subsidy.							
<p>Audit adjustments</p>	<p>Many of the adjustments completed on last year’s Housing Benefit claim were avoided this year by the Council completing early work. Only three adjustments were necessary to the Housing benefits return as a result of our certification work this year. These are detailed below.</p> <p>The first issue below has been an issue since 2013/14, the latter two issues are new.</p> <ul style="list-style-type: none"> ■ The Local Housing Allowance (LHA) rate changed in 2013/14 and the system failed to apply this to the two bedroom rate cases. This has affected a minor number of cases in the 2014/15 subsidy claim leading to a total overpayment of benefit of £72. This led to post-audit amendments: but doesn’t affect the level of subsidy awarded as the Council is under the total allowable error value. ■ A corrected error on one traveller claimant’s benefit, regarding calculation of the rent free week adjustment, led to a classification error and a £29 overpayment. The audited claim reclassified this £29 from cell 028 to cell 027. There is no subsidy impact. ■ One modified scheme was not a genuine case. Further testing of all modified claimants proved this was the only case. The result was a reduction of £302, which affects subsidy by the same value. <p>There were no audit adjustments to the other engagements; Pooling Capital Return and Teachers’ Pension Return.</p>	<p>Pages 7</p>						
<p>Fees</p>	<p>The indicative fee for our work on the Council’s 2014/15 Housing Benefit Subsidy was set by Public Sector Audit Appointments at £25,500. No changes were made to the actual fee charged. Our fees for the other ‘assurance’ engagements were subject to agreement directly with the Council and were:</p> <ol style="list-style-type: none"> 1. Pooling Capital Return: £2,750 2. Teachers’ Pension Return: £3,250 	<p>Page 8</p>						

Overall, we carried out work on 3 grants and returns:

- 2 were unqualified with no amendment; and
- 1 required a qualification to our audit certificate and was also amended.

Detailed comments on the issues raised are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council's 2014/15 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment(s)	Unqualified
Public Sector Audit Appointments arrangements					
■ Housing Benefit Subsidy	1				
Other assurance engagements					
■ Pooling Capital Receipts	2				
■ Teachers' Pension	3				

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous pages.

Ref	Summary observations	Amendment
1	<p>Housing benefits (amount claimed £195.9m)</p> <p><u>Qualification issues</u></p> <ul style="list-style-type: none"> ■ Benefit software reconciliation and in-year-reconciliation cells: Due to DWP's reporting specifications there are usually minor qualification issues on the benefit software reconciliation and on rounding differences. These arise as: <ul style="list-style-type: none"> ■ The Council must reconcile benefit granted to benefit paid to give assurance over the grant claim submitted. The suppliers of the benefits software provide a detailed reconciliation spreadsheet that calculates a figure that is compared to the figures included in the grant claim's headline cells. The two figures should agree. However, differences continue to arise, which although explained are left in the reconciliation spreadsheet. ■ The claim is recorded in round pounds so the addition of the cell totals, calculated in the in-year reconciliation cell, don't always agree to the exact total benefit report from the system. The difference has in 2014/15 and previously been reportable to DWP. ■ Backdate cells: There are three cells on the claim form to record the value of granted benefit that is a backdate, that is benefit that was granted before the claimant applied for benefit, which is not normally granted unless they meet certain criteria. The cell is completed for DWP's information only so there is no impact on subsidy. <p>Our testing of entries in this cell has been raised in qualifications since 2012/13. The error that arises is the inclusion of benefit awarded for claimants who have not been awarded backdated benefit, that is they have been awarded the benefit after the application date. This is due to the fact that the software automatically reports benefit as backdated based on a complex logarithm within the system. If assessors are not careful on input of complex cases the system includes inappropriate cases.</p> <p>Specific testing in 2014/15 found 13% of cases tested (5/40) were incorrectly included in the backdated cells. Due to changes in auditors reporting requirements no work or reporting will be required on this in 2015/16. However, the council may still want to review its smaller case load in Non-HRA and make amendments to the claim pre-audit.</p>	<p>-£139 +/- £1-2</p> <p>- £25,946 in (no subsidy effect)</p>



Annual Report on Grants and Returns work 2014/15

Summary of certification work outcomes continued

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous pages.

Page 31

Ref	Summary observations	Amendment
1	<ul style="list-style-type: none"> ■ Taxable income received by claimants: Taxable income is still an area where errors are being made in calculations due to the complexities and specific individual circumstances that can arise within a claimant's income. This year five claimants were being underpaid due to incorrect calculations in their weekly income. Underpayments increase the risk to the Council of loss of income on the Council's rental properties due to none paid rents, as well as the distress and hardship caused to claimants. ■ Board and Lodging eligible rent calculation: The calculation of the Board and Lodging eligible rent continued to be an issue in 2014/15. The errors (4/49 of our samples) occur due to not deducting or miscalculating ineligible services due to complexities in the calculations and information provided from the landlords. However, our work has only ever produced very minor values in the pro-rata qualifications and subsequent reductions in subsidy (2014/15 findings led to a £15 reduction). ■ Board and Lodging - cell 012: An underpayment on the Board and Lodging cell 012, of £131.54, was found in 2014/15 due to a manual assessment error overlooking two weeks of claimant benefit. ■ Re-classification between cell 098 and 099: There are several laws for private tenants' benefit calculations and each one as a separate cell on the claim form. Claims that should be included in cell 098, previously included in cell 099, were reviewed and correctly moved by the Council in 2014/15 pre-audit. We reported this in the qualification letter as the re-classification was only done for the 2014/15 subsidy year and so there were still known errors in the prior year information, which could have been adjusted for in the prior year cells. Subsidy is not affected as both cells attract the same level of subsidy. 	<p>£0</p> <p>£15</p> <p>£0</p> <p>£0</p>

This table continues to summarise the key issues behind each of the adjustments or qualifications that were identified on the previous pages.

Page 32

Ref	Summary observations	Amendment
1	<p><u>Adjustments issues</u></p> <p>Three audit adjustments were made to the Housing benefits return this year as detailed in the headlines section of this report. Of these three adjustments though, two related to specifics on individual cases that are not expected to arise again in the future (that is the travellers rent free week overpayment error and the incorrectly classified modified scheme).</p> <p>The Council will however have to address issues regarding the Local Housing Allowance (LHA) rate reduction to prevent further adjustments in future years. This adjustment arose as the LHA rate changed in 2013/14 and the system failed to apply this to the two bedroom rate cases. This has affected a minor number of cases in the 2014/15 subsidy claim leading to a total overpayment of benefit of £72. This led to post-audit amendments: but doesn't affect the level of subsidy awarded as the Council is under the total allowable error value.</p>	<p>(no subsidy effect) -£302</p> <p>-£72</p>



Annual Report on Grants and Returns work 2014/15 Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2014/15 was £31,500.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2014/15 (£)	2013/14 (£)
BEN01 – Housing Benefit subsidy claim	25,500	34,001
Pooling of Housing Capital Receipts	2,750	1,920
Teacher's Pensions Return	3,250	3,250
Total fee	31,500	39,171

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2014/15 of £25,500. Our actual fee was the same as the indicative fee, and this compares to the 2013/14 fee for this claim of £34,001, which has been reduced by PSAA given the centrally reduced costs from the closure of the Audit Commission.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fees for 2014/15 increased slightly to account for additional testing required for one of the returns (Pooling Capital Receipts).

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority rating for recommendations

<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<p>Pre-submission work</p> <p>The pre-submission work on known issues (CAKE) completed by the Council in 2014/15, aided the audit process and reduced the amount of the additional work required.</p>	<p>Additional audit work leads to increases in fee and delays in the audit process.</p>	<p>1 The Council should complete the agreed pre-submission work again in 2015/16.</p>	<p>2</p>	<p>Agreed but auditor to provide a list of agreed pre submission work.</p>	<p>Dave Mendham. Target date 30.04.16</p>
<p>Rounding qualification issues</p> <p>There are usually minor qualification issues on the benefit software reconciliation and on rounding differences of In-year-reconciliation-cells to headline cells.</p>	<p>Unnecessary minor qualification issues.</p>	<p>2 If the Council wishes to remove these qualification issues it should add rounding and other adjustments to spreadsheets used to compile the claim form and explain the movements.</p>	<p>3</p>	<p>We are not proposing to do this as we are not expecting a qualification next year as covered in Q7 HB Subsidy Claims- LA Best Practice Guide version 2 "...the next auditor guidance to be produced 2015/16, auditors will be instructed not to qualify claims when in-year reconciliation failures on the final subsidy claim are due solely to roundings between HB system outturn reports & the entries made on the claim form".</p>	<p>N/A</p>
<p>Backdates</p> <p>Backdates continues to be an area where regular errors are made (stating benefit as a backdate when it is genuine ordinary benefit).</p>	<p>As this is an information only cell there is no subsidy impact and changes to auditor requirements means no work or reporting will be required on this in 2015/16.</p>	<p>3 The Council should consider reviewing its smaller backdate case load in the Non-HRA headline cell 011 and make amendments to the claim pre-audit.</p>	<p>3</p>	<p>Agreed All Non HRA backdates to be checked and amended pre claim submission date. Advice to be issued to assessment managers reminding of correct procedure.</p>	<p>Dave Mendham 30.04.16 29.02.16</p>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<p>Taxable income</p> <p>Calculating the claimants appropriate taxable income is a complex area and our testing continues to find errors in these calculations. This year we found five claimants that were underpaid due to incorrect calculations of their weekly income.</p>	<p>Underpayments increase the risk to the Council of loss of income on the Council's rental properties due to none paid rents. In addition it may lead to distress and hardship to the claimants.</p>	<p>4</p> <p>The Council should remind assessors to use standard templates when calculating taxable income.</p>	<p>2</p>	<p>Agreed Advice to be issued to assessment managers reminding of correct procedure.</p>	<p>Dave Mendham 29.02.16</p>
<p>LHA reduction adjustment</p> <p>Some claimants may still have claims that include the overstated LHA rate from 2012/13 in the 2015/16 subsidy grant benefit calculations.</p>	<p>The 2015/16 overstated subsidy value in respect of this issue is expected to be lower than in previous years. But if cases are left unchanged this will result in an amendment to the 2015/16 claim.</p>	<p>5</p> <p>The Council should consider reviewing and resolving this issue before the 2015/16 claim is submitted to avoid audit adjustments.</p>	<p>3</p>	<p>Agreed. Subsidy officer to get confirmation from Policy & Procedure officer that these have all been actioned for 2015/16.</p>	<p>Dave Mendham 30.03.16</p>

We made five recommendations in our 2013/14 Certification of Grants and Returns Annual Report. Where recommendations have not yet been implemented fully we have detailed their current status below. There is also one outstanding recommendation from 2012/13.

Prior year recommendation	Priority	Status as at January 2016	Management comments	
Incorrect taxable income calculated for assessments				
1		The Authority / Capita should reinforce this area when training staff, and carry out specific quality checks to reduce the number of errors.	2 Although the Council has attempted to address this recommendation by reinforcing the message - the 2014/15 audit still found errors in the taxable income therefore the recommendation is carried forward.	Taxable income is one of the more complex areas of claims administration and therefore susceptible to a higher risk of error. Further guidance will be issued to ensure staff are aware of the correct procedure to follow. This will be reinforced through the quality checking regime.
Ordinary benefit misstated as backdates				
2	Page 36	The Authority / Capita should reinforce this area when training staff, and carry out specific quality checks to reduce the number of errors.	3 Although the Council has attempted to address this recommendation by reinforcing the message - the 2014/15 audit still found errors in the taxable income. However, we understand that due to changes in auditor guidance we will no longer be required to qualify this in 2015/16.	There are no subsidy, performance or customer service implications arising from these misclassification errors. Consequently the audit will no longer be required to report on them in future years. However, further guidance will be issued to ensure staff are aware of the correct procedure to follow. This will be reinforced through the quality checking regime.
2012/13 outstanding recommendations				
1		The Authority /Capita should identify why backdate misclassifications have occurred and take appropriate action to ensure that similar errors are avoided in future.	3 This issue has been reported in each of the last two years but errors on backdating continued to occur in the 2014/15 claim. However, we understand that due to changes in auditor guidance we will no longer be required to qualify this in 2015/16.	There are no subsidy, performance or customer service implications arising from these misclassification errors. Consequently the audit will no longer be required to report on them in future years. However, further guidance will be issued to ensure staff are aware of the correct procedure to follow. This will be reinforced through the quality checking regime.



cutting through complexity

Page 37

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AUDIT COMMITTEE REPORT – 14 APRIL 2016

EXTERNAL AUDIT PLAN 2015/16

Report from KPMG.

Recommendation:

That the Committee notes the External Audit Plan 2015/16.

Category of Report: Open



External Audit Plan 2015/2016

Sheffield City Council

March 2016

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and a detailed review of reserves held by the Authority. It has been set at £27 million.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £1.35 million.

Significant risks

There are no significant risks identified.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- IFRS 13 Fair Value Measurement – Sheffield has £123m of surplus assets as at 31st March 2015 which will need to be revalued and accounted for under fair value basis. The impact of these revaluations could be material.
- Better Care Fund – The Sheffield Better Care Fund pooled budget (£274m) between Sheffield CCG and SCC has significant accounting and disclosure implications.

See pages 3 to 5 for more details.

Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment is ongoing and we will report VFM significant risks during our audit.

See pages 6 to 8 for more details.

Logistics



Our team is:

- Tim Cutler - Partner
- Trevor Rees – Director
- Alison Ormston– Senior Manager
- Matthew Ackroyd - Manager
- Atta Khan – Assistant Manager

More details are on page 11.

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on page 12.

Our fee for the audit is £186,998 (£249,330 2014/2015) see page 9.

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/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 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.

Acknowledgements

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

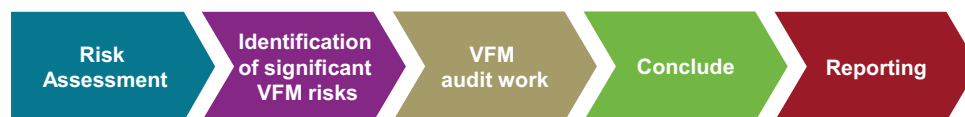
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16.



Financial Statements Audit Planning

Our planning work takes place during January to March 2016. This involves the following key aspects:

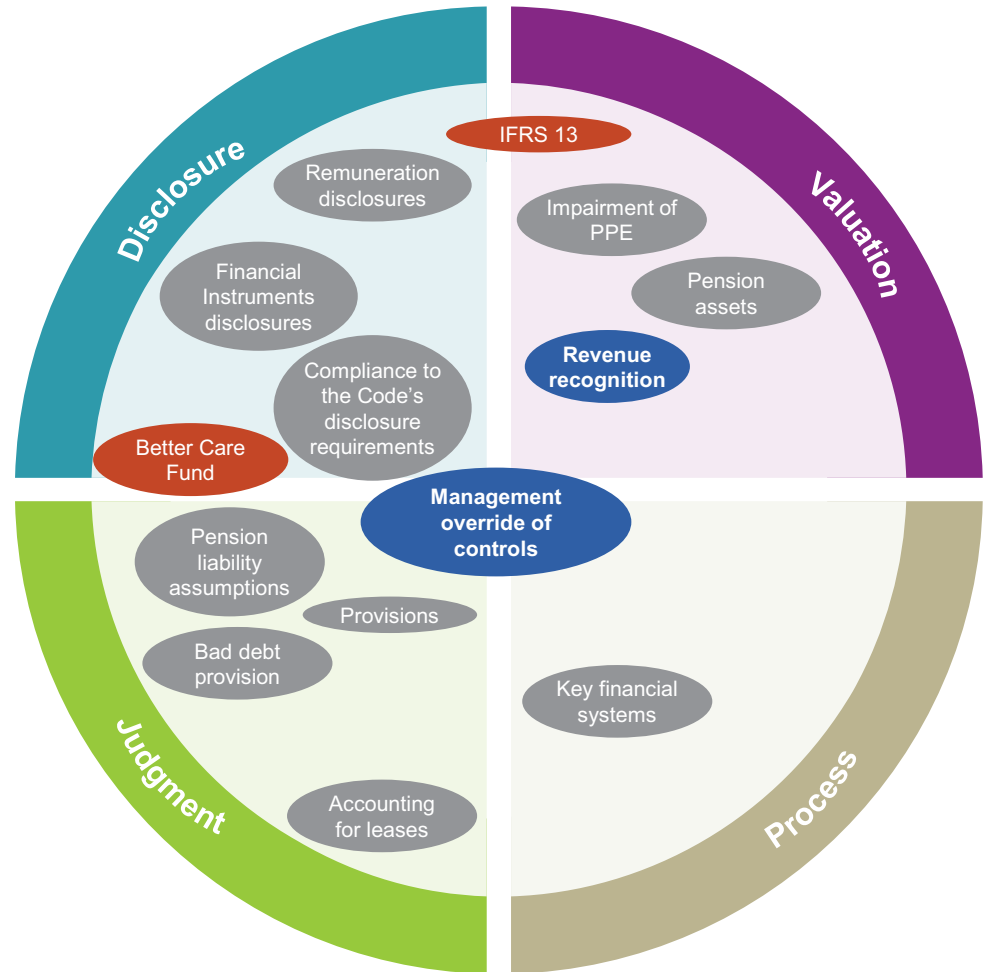
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We 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 diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Other areas considered by our approach



Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

None identified.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other area of audit focus 1

Page 45

■ **IFRS 13:** The 2015/16 edition of the Code introduces new or amended, accounting practices in respect of IFRS 13: Fair Value Measurement. There are no adaptations to IFRS 13 for the public sector context. However, section 4.1 of the Code adapts IAS 16 to require that Surplus Assets (property, plant and equipment) are measured at fair value. Sheffield has £123m of surplus assets as at 31st March 2015 which will need to be revalued and accounted for under fair value. The impact of these revaluations could be material for the statement of accounts for 2015/16.

- **Approach:** We will review the revised valuation basis which will include consideration of Kier's valuation reports of all affected assets. We will also review the impact of this on the disclosure requirements within the 2015/16 statement of accounts.

Other areas of audit focus

Other area of audit focus 2

- **Better Care Fund:** The Sheffield Better Care Fund pooled budget (the fund) has a primary aim to '...drive closer integration and improve outcomes for patients and service users and carers'. The fund was set up as a pooled budget – a partnership arrangement whereby Sheffield CCG and SCC contribute an agreed level of resource into a single pot (the 'pooled budget') that is then used to commission or deliver health and social care services.
- For 2015/16, the combined financial contribution (as set out within the Section 75 Agreement) from the two partners was £270.5m of revenue and £3.5m of capital, which totalled £274.0m (of which £108m relates to SCC including the capital element).
- There are various accounting standards that apply to pooled budgets including IAS 28 Investments in Associates and Joint Arrangements, IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of Involvement with Other Entities.
- **Approach:** We will review the proposed accounting treatment and disclosure in advance of the audit of the accounts to ensure it is consistent with the accounting standards and with that adopted by other members of the fund.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £27 million, which equates to 1.9 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

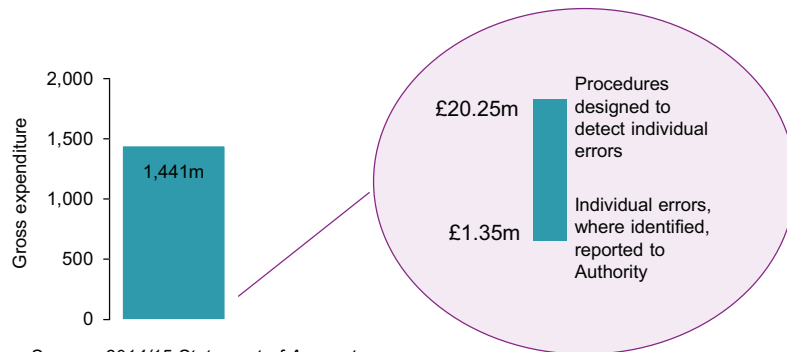
Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.35 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Source: 2014/15 Statement of Accounts



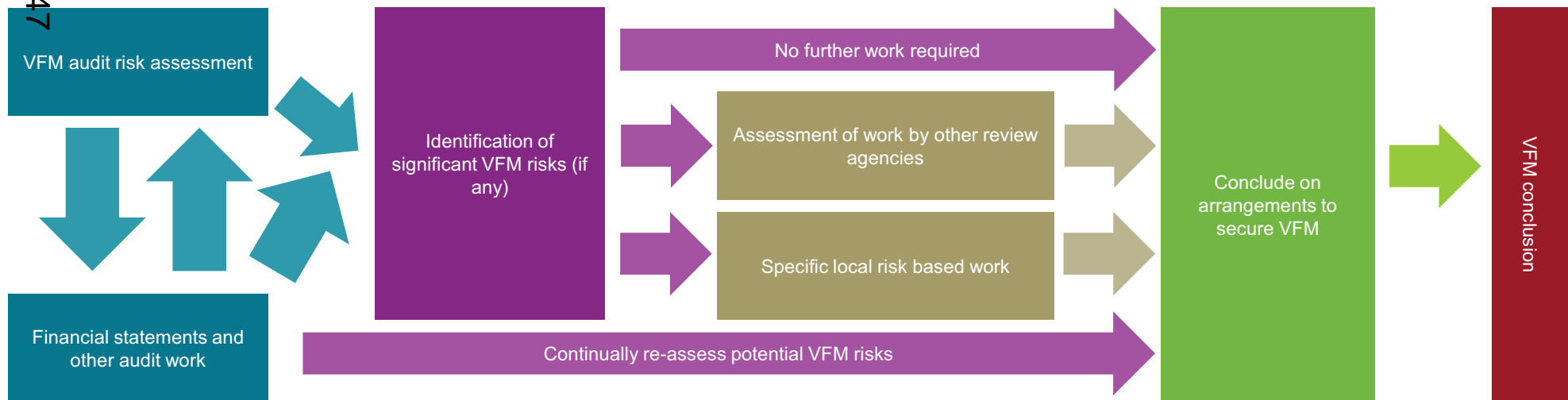
Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of the criteria.

Overall criterion
 In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.





VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Packages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant <i>'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'</i></p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; and ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p> <p>Page 49</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 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 PSAA's fee scales.

Our audit team

Our audit team will be led by Tim Cutler who will add a fresh perspective to the audit (due to extenuating circumstances Tim will be supported by Trevor Rees on a temporary basis with immediate effect). Appendix 2 provides more details on specific roles and contact details of the team.

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 communication outputs are included in Appendix 1.

Independence and Objectivity

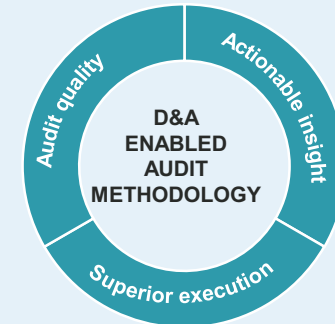
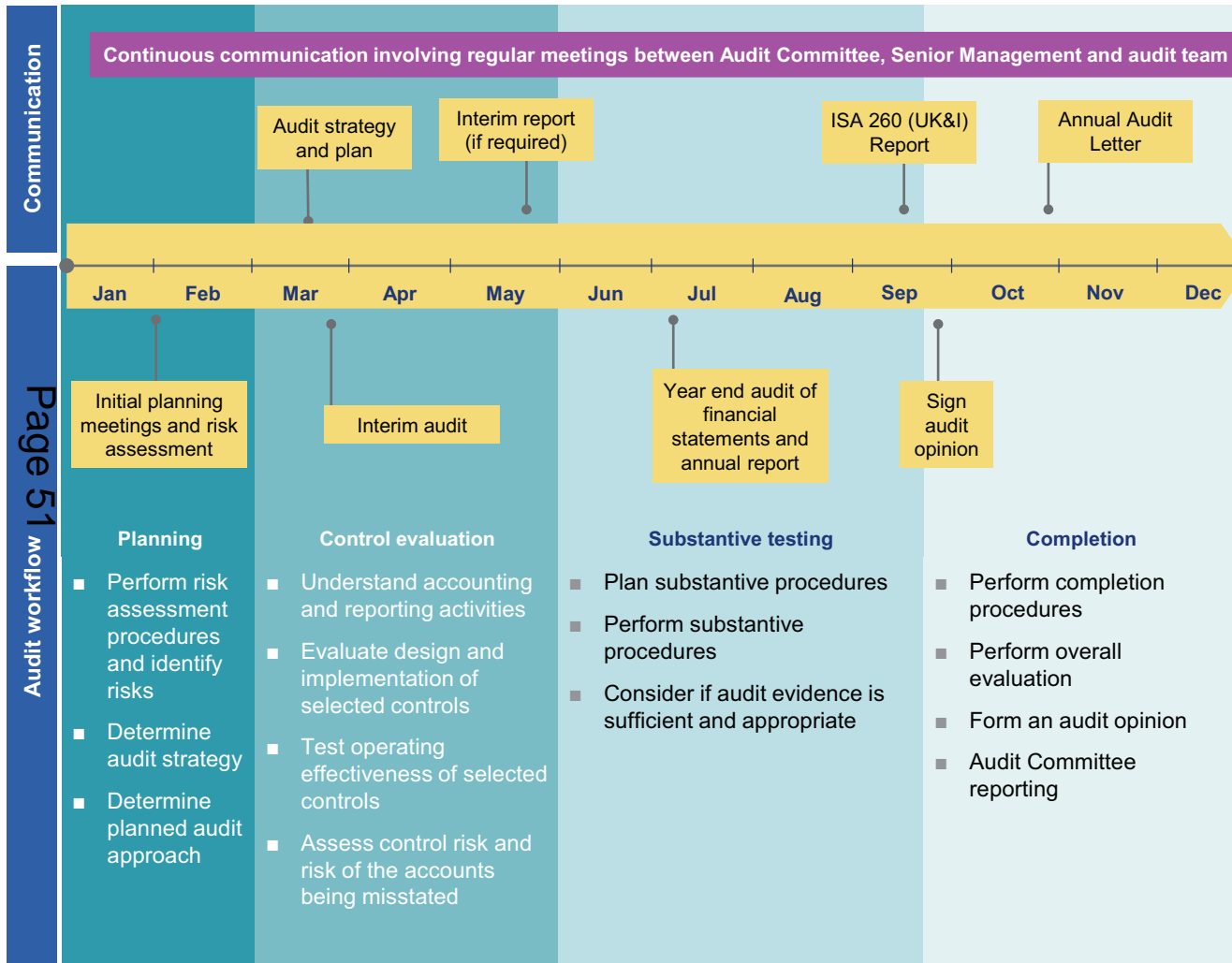
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £186,998. This is a reduction in audit fee, compared to 2014/2015, of £62,332 (25%). This is due to a 25% reduction in scale fees set by the Audit Commission for 2015/16.

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



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



Your audit team has been drawn from our specialist public sector assurance department. Atta will provide continuity as he was part of the Sheffield City Council audit last year. Tim, Alison and Matthew will add a fresh perspective to the audit. Trevor will provide support in Tim's temporary absence.



Name	Tim Cutler
Position	Partner
	'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 and s151 Officer'.

Tim Cutler
Partner
Tel: 0161 246 4774
Email: tim.cutler@kpmg.co.uk



Name	Alison Ormston
Position	Senior Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Tim to ensure we add value. I will liaise with the Director of Finance and other Executive Directors.'

Alison Ormston
Senior Manager
Tel: 0113 231 3515
Email: alison.ormston@kpmg.co.uk



Name	Trevor Rees
Position	Director
	'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 and s151 Officer'.

Trevor Rees
Director
Tel: 0161 246 4774
Email: trevor.rees@kpmg.co.uk



Your audit team has been drawn from our specialist public sector assurance department. **Atta** will provide continuity as he was part of the Sheffield City Council audit last year. **Tim, Alison and Matthew** will add a fresh perspective to the audit. **Trevor** will provide support in **Tim's** temporary absence.



Name	Matthew Ackroyd
Position	Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work with Tim and Alison to ensure we add value.</p> <p>I will liaise with the Senior Finance Manager and other managers at the Authority'.</p>

Matthew Ackroyd
 Manager
 Tel: 0113 254 2996
 Email: matthew.ackroyd@kpmg.co.uk



Name	Atta Khan
Position	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.</p> <p>I will liaise with the Finance team'.</p>

Atta Khan
 Assistant Manager
 Tel: 0113 231 3625
 Email: atta.khan@kpmg.co.uk

Independence and objectivity

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

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

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

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment 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 PSAA audit work 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.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA'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 Terms of Appointment.

Confirmation statement

We confirm that as of March 2016 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.



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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact [...], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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AUDIT COMMITTEE REPORT – 14 APRIL 2016

ANNUAL AUDIT FEE LETTER 2016/17

Report from KPMG.

Recommendation

That the Annual Audit Fee Letter for 2016/17 is noted.

Category of Report - Open

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M2 3AE

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Fax +44 (0) 161 246 4040

Allison.ornston@kpmg.co.uk

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

Our ref: 11/597/AO

05 April 2016

Dear John

Annual audit fee 2016/17

I am writing to confirm the audit work and fee that we propose for the 2016/17 financial year at Sheffield City Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd's (PSAA's) published work programme and fee scales.

Planned audit fee

The planned audit and certification fees for 2016/17 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2016/17	Planned fee 2015/16
Code of Audit Practice audit fee – Sheffield City Council	186,998	186,998
Certification of housing benefit grant claims	19,838	25,500

PSAA has set the 2016/17 audit scale fee at the same level as for 2015/16, thereby preserving the 25 per cent reductions that were applied that year which in turn was in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012/13. The planned fee is in line with the scale fee.

As we have not yet completed our audit for 2015/16 the audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.



Redistribution of Audit Commission surplus

Following completion of the Audit Commission's 2014/15 accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA will distribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established by the PSAA Board.

This distribution will be made directly by PSAA and not via KPMG. Based on current information, PSAA anticipates that the amount of the redistribution is likely to be in the order of 15% of the scale fee *(for local government and police bodies)*.

Factors affecting audit work for 2016/17

We plan and deliver our work to fulfil our responsibilities under the Code of Audit Practice (the Code) issued by the National Audit Office (NAO). Under the Code, we tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting our audit responsibilities or financial reporting standards.

CIPFA/LASAAC has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* for highways network assets. This change will require additional work in 2016/17 but PSAA has indicated that it is not appropriate to increase the scale fees to cover the costs of this work because the amount of work required at individual authorities will vary based on local circumstances. The fees for this additional work will therefore be discussed and agreed with you in due course and will be subject to PSAA's normal fee variation process. PSAA expects that the additional fees for a highways authority will be in the range £5,000 to £10,000, where authorities are able to provide the information required and the auditor is able to rely on central assurance of the valuation models in use. These amounts are indicative and therefore costs outside of this range may be necessary.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources and to do this we will undertake appropriate value for money (VFM) audit work. The 2016/17 fees have been set on the basis that the NAO's Code and supporting guidance does not change the level of work required on the VFM audit. Should this not be the case, or if new or increased significant VFM audit risks arise that require further audit work, additional fees will be necessary over and above the scale fee. Any such additional fees will be subject to approval through PSAA's fee variation process.

We understand that the Council shall be implementing a new financial system in the 2016/17 period. We anticipate that this shall result in significant additional work to document and understand the new controls in place and the migration of existing data. Additional fee shall be



required for this work and this shall be discussed and agreed in due course. All additional fees will be subject to the PSAA's fee variation process.

Certification work

As well as our work under the Code, we will certify the 2016/17 claim for housing benefit subsidy to the Department for Work & Pensions.

There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. We would be happy to discuss any such certification needs with you.

Assumptions

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

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

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2. A statement of our independence is included at Appendix 3.

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



Our team

The key members of our audit team for the 2016/17 audit are:

Name	Role	Contact details
Tim Cutler	Partner	tim.cutler@kpmg.co.uk
Alison Ormston	Senior Manager	alison.ormston@kpmg.co.uk
Mathew Ackroyd	Manager	mathew.ackroyd@kpmg.co.uk
Atta Khan	Assistant Manager	atta.khan@kpmg.co.uk

Quality of service

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Andy Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to:

Public Sector Audit Appointments Limited
3rd Floor
Local Government House
Smith Square
London
SW1P 3HZ

Yours sincerely

Tim Cutler
Partner, KPMG LLP

cc: Eugene Walker
Public Sector Audit Appointments Ltd.



Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2015/16 except for the implementation of the new financial system.
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on Local Authority Accounting within your 2016/17 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by Local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

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

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



Appendix 2: Planned outputs

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

Planned output	Indicative date
External audit plan	February 2017
Interim audit report	June 2017
Report to those charged with governance (ISA260 report)	September 2017
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2017
Opinion on Whole of Government Accounts return	September 2017
Annual audit letter	October 2017
Certification of grant claims and returns	January 2018

Appendix 3 – Independence & objectivity requirements

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

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

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

Further to this auditors are required by the NAO's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment 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 PSAA audit work 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.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of April 2016 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.



SHEFFIELD CITY COUNCIL

Chief Executive's Directorate

REPORT TO AUDIT COMMITTEE

DATE
14th April 2016

REPORT OF Senior Finance Manager, Internal Audit **ITEM**

SUBJECT Internal Audit Plan 2016/17

SUMMARY The report presents the Internal Audit planning methodology and programme of work for 2016/17.

RECOMMENDATIONS In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice (including PSIAS Standards) it is recommended that Members endorse the attached programme of work for 2016/17.

FINANCIAL IMPLICATIONS No **PARAGRAPHS**
CLEARED BY K Inman **31**

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

14th April 2016

Director Finance Report – 2016/17 Work Programme

Purpose of the Report

1. The purpose of this report is to present and communicate to members of the Audit Committee the internal audit plan for 2016/17.

Background

2. The strategy for Internal Audit work is to focus on areas of high-risk activity in order to provide assurance that risk and internal control systems are being properly managed by Directors in service areas.
3. The basis of the planning process was not a fully risk scored audit universe but was more reliant on perceived areas of risk and emerging issues. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.

Planning Methodology

4. In order to plan for the use of Internal Audits' resources, the approach is structured around the following:
 - Utilisation of the corporate risk management process including the corporate risk register and portfolio risk management plans.
 - Utilisation of the information provided by Directors under the Annual Governance Statement (AGS) process.
 - Areas of highest perceived risk as determined by the Chief Executive/Executive Management Team (EMT)/Executive Director - Resources/Director of Finance/Assistant Directors of Finance /Senior Finance Managers/ Finance Managers.
 - An allocation of resource to cover fraud, theft and corruption allegations (re-active investigations).
 - Pro-active counter fraud work.
 - Main financial systems (MFS) work.
5. The format of the tactical plan was revised in 2014/15 and this was positively received by Audit Committee members. This format has been adopted again for 2016/17 and includes additional information about the scope of audit reviews, whether the auditable area is present in either the portfolio or corporate risk register and whether there are any AGS concerns raised.

6. We have also distinguished between the different types of audit such as corporate reviews, risk-based audits, compliance audits and other work such as grant sign-offs.

Utilisation of the Corporate Risk Management Arrangements

7. 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. In addition, Internal Audit will perform a review of the risk management process to provide assurance that it operates effectively.

Utilisation of the Annual Governance Statement

8. The process for collating information for the production of the AGS is 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. Internal Audit will perform a review of the annual governance statement process to provide assurance that it operates effectively.

Fraud Allegations (Re-active investigations)

9. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft and corruption. From Feb 2015, the Single Fraud Investigation Service was formally established and all benefit fraud cases are now investigated by this central government service, rather than by SCC. Throughout 15/16 it became apparent that a number of benefit related frauds were not being considered by the SFIS, such as council tax or housing benefit where these were not linked to wider DWP benefit frauds. These cases are passed back to SCC to deal with under administration processes.
10. For 16/17, Internal Audit are planning to review such areas as part of the proactive counter fraud resource allocation, and this may subsequently lead to more specific case investigations. Flexibility is therefore required in the use of the fraud investigation resource. Nevertheless, in the event that the volume of fraud allegations increases or a large scale investigation becomes necessary, resources will be transferred from other areas of the internal audit plan.

Pro-active Counter Fraud Work

11. Despite the changes introduced for external audit and the role of the Audit Commission, the National Fraud Initiative (NFI) element of the Commission's work continues under the remit of the Cabinet 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, as new areas of scrutiny continue to be added e.g. most recently tenancy fraud and abuse of the blue badge scheme.
12. 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. Four such reviews have been included in this year's tactical plan.
13. During recent years Internal Audit has provided fraud awareness presentations to employees to improve defences against fraud. In 2016/17 the e-learning course will be refreshed and added to the Sheffield Development Hub.

Main Financial Systems (MFS)

14. 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 take assurance from the work of Internal Audit on these systems.
15. Key financial systems have been selected for the 2016/17 audit plan, including a number of follow up reviews. In addition to this, reviews relating to general ledger reconciliation processes have also been included within the Resources Portfolio plan. The Director of Finance believes this aspect of the work of Internal Audit to be crucial in supporting the S151 officer responsibilities.

ICT (BCIS)

16. The partnership for technical ICT support will not be renewed for 2016/17 due in part, to the significant changes being undertaken with regards to ICT systems. Consideration will be given to retendering for this support from 2017/18

onwards. The in-house expertise is believed to be sufficient to cover the ICT audits included in the 16/17 plan.

Risk Based Audits of Systems/Services/Functions

17. 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 was not a fully risk scored audit universe but was more reliant on perceived areas of risk and emerging issues.
18. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.
19. 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

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

Auditable Area	Days	No of Outputs
Corporate Reviews	79	5
Communities	406	32
Children, Young People and Families (CYPF)	291	33
Place	274	22
Resources	294	23
BCIS	123	10
Main Financial Systems	118	7
Investigations and Benefits (*exc reactive allocation)	191	7*
Total	1776	139

Assessed Priority	Days
High Priority	1473
Medium Priority	221
Low Priority	7
Statutory	75
Total	1776

23. It should be noted that the above 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.
24. Attention is also drawn to the first call list (last page of the plan), which highlights the reviews identified during the planning process which cannot be completed due to a short-fall in internal audit resources. Every effort has been made to add medium priority reviews to the first call list, and maintain all the high priority reviews in the plan, however there are still 6 high priority reviews on first call (4% of the total output). These will be the priority to be completed in the event that planned reviews are deferred, and any that are not completed will be automatically included in the 17/18 plan.
25. The 2016/17 annual plan is attached at Appendix 1.

Future Considerations

26. 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.
27. 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. 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

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

EQUAL OPPORTUNITIES IMPLICATIONS

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

CONCLUSION

30. 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

31. 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 2016/17.

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Overall Summary By Portfolio and Audit Type

Appendix 1

	Corporate*	Place	CYPF	Communities	Resources**	BCIS	MFS	Investigations	Total Days
Compliance Audits	25		7	5			118		155
Risk Based Audit	54	154	190	377	274	99		27	1175
System Based Audit									0
Control Risk Self Assessment			30						30
School Visits			40						40
Application Reviews						24			24
Follow Up Audits		10	9	15	20				54
Project Management Reviews		72							72
Advisory								20	20
Value for Money		18							18
Investigations								88	88
Pro-active Fraud Reviews								56	56
Grant certification/account sign-off		20	10	9					39
Report Production			5						5
Total Days	79	274	291	406	294	123	118	191	1776
No of audits	5	18	13	26	15	10	7	7	101
No of follow-up reviews		4	4	6	8				22
School visits/follow-ups/reports			16						16
Productive Outputs	5	22	33	32	23	10	7	7	139

exc reactive

High Priority	79	216	161	347	266	123	118	163	1473
Medium Priority		38	113	50	20				221
Low Priority			7						7
Statutory		20	10	9	8			28	75
Total Days	79	274	291	406	294	123	118	191	1776

* Cross cutting reviews covering multiple Portfolios

** Includes Sheffield One and Policy, Performance and Communications

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	Portfolio RMP	CRR
Corporate Reviews								
	Corporate Business Continuity Planning (BCP)	RBA	High	Review of the BCP approach to ensure it is fit for purpose		1		
Risk Management								
	Corporate risk management approach	RBA	High	Assurance that the risk management system in place is robust. With sampling to be undertaken in portfolios.		1		
Annual Governance System (AGS)								
	Data quality checks	compliance	High	Assurance that the returns are supported with appropriate evidence. Sampling to be undertaken in portfolios.				
	Annual statement production and process review	compliance	High	Assurance that the system in place for the production of the AGS is robust.				
Public Health								
Public Health	Public Health Strategy integration	RBA	High	The review will examine how the revised Public Health Strategy for the Council has been developed and communicated. To ensure it is incorporated into the strategic decisions and day to day operations of the council.	Better Health and Wellbeing			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	Portfolio RMP	CRR
Place Portfolio (266)								
Regeneration and Development Services	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 sign off required by 30.9.16, in relation to the outstanding balance c/fwd from 15/16.	2 & 5			
	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. Flood defence grant for the protection of commercial businesses. Sign off required for the outstanding balance c/fwd from 15/16.	2, 5 & 6			
	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. Grant to support bus services and provision of infrastructure. Required by 30.9.16.	5			

	Planning - Building Controls	VFM	High	Assurance that the service is applying a commercial and competitive approach ensuring full costs are recovered and an effective fee charging mechanism. Ensuring there is a clear Strategy for the service and the audit will include an assessment of the unit costs per inspection. Finally to review the process for notices of enforcement when planning breaches have been reported.	5 & 6		Place 264, 265 & 266	
	Community Investment Levy (CIL)	RBA	High	Assurance about the implementation of the new CIL to provide an infrastructure to support new developments in an efficient way. Ensuring adherence to agreed timescales and an assessment of the impact of the new CIL, as well as the scaling back of section 106 agreements. Also to review the charging schedule, ensuring it is financially viable and an assessment of the spending arrangements to the levy funds.	2 & 5			
	Archaeology Accounts	Accounts sign off	Statutory	Statutory sign off of annual accounts.	N/A			
	Parking Services - including a follow up review	RBA	High	Assurance that the service is adhering to the Council's Policies and Procedures. Review to include an assessment of progress made and updated position against the follow up review undertaken in 14/15.	2, 5 & 6		Place 21 & 25	

Business Strategy and Regulation	Markets Service	RBA	High	Review requested by Head of Service to ensure that new processes and controls are robust and effective. To include an assessment of progress made and updated position against the follow up review undertaken in 14/15.	2, 5 & 6			
	Commercialisation Project	Project Management	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.	2, 5 & 6			
	Premises Licences	RBA	High	To provide assurance that processes are robust and effective for premises licences.	2, 3, 5 & 6		Place 155, 156, 160, 162, 164, 165, 299-301, 303, 308 & 309	
(Links to Human Resources)	Succession Planning/Staff Development	RBA	High	To provide assurance that succession planning has been considered and appropriate action taken to address this issue across the Portfolio. To include an assessment of staff development plans and effective monitoring and delivery.	2, 5 & 6			
Capital and Major Projects	Don Valley Stadium - Development	Project Management	High	Assurance around the governance and decision making arrangements, including the approvals process and development of the site.	2, 3 & 5		Place 154	

	Sheffield Retail Qtr Project (NRQ)	Project Management	High	Project management standards are complied with including clear project planning and progression, effective communication channels, defined roles and responsibilities, clear funding arrangements and effective governance and reporting arrangements. Including effective and clear links to other projects and partners.	2 & 5		Place 254	
Creative Sheffield	Sheffield City Region Investment Fund (SCRIF) Projects	Project Management	High	To select a sample of projects and assess the project management and progression of the project, service delivery, staffing/human resources element and the decision making process.	2 & 5			
Culture and Environment	Parks Service Review	RBA	High	To provide assurance to management that the service controls are adequate and been operated in an effective manner, this will cover; management controls, budget setting and monitoring, KPI's/targets and performance monitoring and reporting arrangements.	5		Place 65, 70, 76, 78 & 80	
	Sheffield International Venues Ltd (SIV) - monitoring arrangements.	RBA	High	To provide assurance that monitoring arrangements are robust and effective.	2 & 5			
Cross cutting within Place Portfolio	Achieving Savings	RBA	High	To provide assurance that arrangements support the effective and timely delivery of agreed savings.	2, 5 & 6		Place 201, 240 & 253	CR113
	Use of Consultants	RBA	Medium	Adherence to the Councils procurement procedures, including value for money partnerships, justified and controlled costs, areas of spend and appropriateness of skills mix. Requested by Directors	2 & 5		Place 39	

Follow-ups	Information Governance - Howden House	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was M-H.	2 & 5			
	Highways Maintenance Client Monitoring Arrangements	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was High.	2, 5 & 6		Place 253	CR113
	The New Capital Delivery Framework	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was High.	2, 5 & 6			
	Bus Rapid Transport (BRT) North	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was M-H.	2, 5 & 6			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	Portfolio RMP	CRR
CYPF Portfolio (306)								
Inclusion and Learning (ILS)	Special Educational Needs and Disabilities (SEND) - Invoicing	RBA	High	To provide assurance to management that the service controls invoicing arrangements effectively which helps keep 'debtors' to a minimum.		4		
	School Company	RBA	High	To provide assurance that appropriate client monitoring arrangements have been established and challenge/support roles are clear and effective.		4		
Lifelong Learning and Skills (LLS)	Care Leavers in Education, Employment or Training (EET)	RBA	High	To provide assurance to management that progress is being made in ensuring that Care Leavers are entering employment, education or training rather than becoming 'Not in employment, education or training' (NEET). The review will include the 'Sheffield working' programme that is being delivered by Sheffield Futures.		4		
	Training Centres - Sheaf	RBA	Medium	To provide assurance following the MER process that around the mid-point of the transitional period arrangements are being effectively established that will result in the change of the use of the facility to Learning Difficulties and Disabilities provision.		4		
Children and Families	Early Years Service Review - 'Best Start' Programme	RBA	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.		4		

	Building Successful Families - Sept 2016 Claim	Grant certification / sign off	Statutory	Statutory responsibility - Phase 2 of the Department for Communities & Local Government (DCLG) Expanded Troubled Families Programme. An audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with. Verification and validation checks on a representative sample of results for the claim submitted.	3, 4 & 6			
	Building Successful Families - January 2017 Claim	Grant certification / sign off	Statutory	Statutory responsibility - Phase 2 of the Department for Communities & Local Government (DCLG) Expanded Troubled Families Programme. An audit opinion on the grant usage and assurance that the grant terms and conditions have been complied with. Verification and validation checks on a representative sample of results for the claim submitted.	3, 4 & 6			
	Looked After Children (LAC) - Fostering	RBA	High	To provide assurance to management that the service controls are adequate and operating in an effective manner, this will cover; management controls, budget setting and monitoring, KPI's/targets, Human Resources and performance monitoring and reporting arrangements.	3, 4 & 6			

School Themed Reviews	Insurance arrangements - including third party liability and non delegated duty of care	Control Risk Self-Assessment	Medium	CRSA to identify Head teachers/Business Managers assessment of the Schools Insurance arrangements. To ensure effective, robust and up to date policies are in place, including arrangements with contractors and sub-contractors in relation to third party liability and non delegated duty of care. May involve visits, will depend on content of returns.	4 & 6			
	Supply/cover procedures in schools	Control Risk Self-Assessment	Medium	CRSA to identify Head teachers/Business Managers assessment of the schools supply cover procedures to ensure effective and robust controls are in place. Ensuring that all schools have a procedure in place and staff are fully aware of the correct process to follow. May involve visits, will depend on content of returns.	4 & 6			
	Routine school visits - 10 schools	School Visit	High	Financial healthcheck of schools in light of the compulsory academisation programme.	4			
	Schools Websites - publication of declaration list and pupil premium spend	Compliance	Medium	Assurance that the schools are complying to the DfE requirement that this information should be declared on the schools website.	4			
	School Financial Values Standards (SFVS)	compliance	Low	Schools that do not complete the SFVS return for 2015/16 will be issued a letter from Internal Audit notifying them that they will be included on all the School Themed reviewed for 2016/17 due to concerns about their internal controls and processes. In an addition an audit visit may also be undertaken.	4			

	Pupil Premium expenditure on Children in Care	RBA	Medium	Assurance that the procedures/policies in place relating to pupil premium are in line with DfE requirements and that they are appropriate and effective.	4			
	Schools Annual Report	Report Production	Low	Report outlining and summarising all the findings and recommendations for the 2015/16 school themed audits.	4			
	Firs Hill	School Visit	Medium	Assurance to the Governing Body that the school has secure financial management in place.	4			
Business Strategy	Universal Free School Meals (UFSM)	RBA	Medium	Assurance that the UFSM has now become part of the School's business as usual and funding of each meal has not resulted in a School shortfall at financial year end.	3 & 4		CYPF58, 59 & 79	
(Link to Children and Families)	Free Early Learning (FEL) - Sourcing of Providers	RBA	High	To provide assurance that there is a robust process in place regarding the sourcing and approving of providers for inclusion on the FEL list, with adequate provision across the city to meet demand and ongoing assessment/evaluation.	4			
Cross cutting within CYPF Portfolio	Achieving Savings	RBA	High	To provide assurance that arrangements support the effective and timely delivery of agreed savings.	4			
	Purchasing Cards	RBA	Medium	To provide assurance that purchasing cards are held securely and used in line with the Councils policies/procedures.	4			
Follow-ups	FEL - Payments/ Administration	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was M-H.	4 & 6			

	Cash Handling - Schools and CYPF	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was M-H for both audit reports.	4 & 6			
	Deficit Recovery	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was M-H.	4 & 6			
	Care Leavers	Follow up	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was M-H.	4 & 6			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	Portfolio RMP	CRR
Communities Portfolio (437 days)								
Care and Support	Safeguarding - financial abuse	RBA	High	A review of the financial controls in place within Safeguarding to mitigate financial abuse.	4		5	CR025
	Continuing Health Care (CHC) in Learning Disabilities	RBA	High	Assurance that the controls in place for the management and monitoring of CHC support packages is robust.	4			
	Adult provider services (APS) - money management	RBA	High	A review of money management controls in APS, to provide assurance of robust and consistent controls.	4			
	City Wide Care Alarms	RBA	High	A review of the budget arrangements in place, and savings forecast with regard to the telecare system to be installed.	4		155	
	Client Management information	RBA	High	A review to ascertain that client management information is robust to ensure accurate cost monitoring	4			
	Resource allocation system (RAS)	RBA	High	A review of the RAS to ensure it is reviewed on a regular basis and is fit for purpose.	4			
	Review and Reassessment in Adults and Learning Disabilities (LD)	RBA	High	Assurance that review and reassessment work in adults and LD is effective and timely.	4			
	STIT	RBA	High	A health check of the restructured STIT service, to provide assurance that controls are in place.	4			
	Social Care Capital Grant	Grant certification/	statutory	Statutory sign off of grant deadline of 30 June 2016	N/A			

	Disabled Facilities Capital Grant Sign off	Grant certification/	statutory	Statutory sign off of grant deadline of 30 September 2016	N/A		
Business Strategy	Performance Management in Communities	RBA	Med	Assurance on the performance management system in place in operation across Communities.	4		
	Staff utilisation	RBA	High	A review across the portfolio examining staff utilisation and costs	4	2	
	Sick absence management	RBA	High	A review across the portfolio examining sick absence management at operational level	4	65, 231	
	Communities - Achievement of savings	RBA	High	Assurance that forecast savings in the portfolio are on target to be achieved.	4		
Commissioning	Better Care Fund (BCF)	RBA	High	A second piece of work to be delivered across the BCF pooled budget area, working in liaison with Health auditors. Yet to be scoped.	4	240	
	Provision of independent providers	RBA	High	To provide assurance that controls in place regarding provision of independent providers are effective	4	217	
	Contract management	RBA	High	A review of reconciliation and financial controls in relation to provider payments	4		
	Commissioning Needs Analysis	RBA	Med	A review on the forecasting process and systems in place to ensure demand forecasting/needs analysis are accurate and fit for purpose.	4		
Council Housing	Archives Accounts	Grant certification/ account sign off	statutory	Statutory sign off of annual accounts in quarter 1.	N/A		
	Executor Services (ES)	RBA	High	To provide assurance that the financial controls in relation to ES are robust	4		

	SCAS - unspent direct payments reclaimed.	RBA	High	To ensure that unspent direct payments are effectively and effectively reclaimed.	4			
	SCAS - care packages costing	RBA	High	An audit to examine the controls in place regarding the costing of care packages.	4			
	Rechargeable Repairs - debt management	RBA	Med	Assurance that there is robust system in place for debt management processes in place with regard to rechargeable repairs	4			
	Homes and Community Agency (HCA) compliance audit - peer review	Compliance	Med	Annual peer review to be undertaken	3			
	Sheltered housing	RBA	High	To provide assurance that the revised delivery model is fit for purpose and is compliant with relevant care act legislation	3, 4			
	Sustainable City - development model	RBA	High	To provide assurance that governance is robust and that funding is maximised, following the move to Communities from Place	3, 4			
Follow-ups	DOLS	Follow up	Med	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was high				
	Safeguarding	Follow up	Med	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was high				
	Appointeeships	Follow up	Med	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was high				

	Sheffield Housing Repairs and Maintenance Contract - Performance Monitoring	Follow up	Med	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was M-H.				
	Client Management in Learning Disabilities Service	Follow up	Med	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was M-H.				
	Libraries Governance	Follow up	Med	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was M-H.				

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	Portfolio RMP	CRR
BCIS								
	Subject Access Requests (CYPF)	RBA	High	Assurance on how subject access request are handled and processed in a timely and effective manner within CYPF.	ALL	AGS	R196	
Records Management	Review of the Records management Service.	RBA	High	To provide assurance to management that the records management service is operating effectively in relation to the risk posed by the storage of paper records.	ALL	AGS	PPC 25	
	Electronic storage and management of data	RBA	High	To provide assurance to management that the Council's policies, procedure and processes for the electronic storage of data are operating efficiently and effectively. This will include the roles of SIRO's and PIRO's within the organisation	ALL	AGS	PPC 25	
Change management Processes	Change Management Processes	RBA	High	To provide assurance to management that the change management processes undertaken by Capita are operating effectively	ALL		R277	
Contract Management	Capita Contract / KPI's	RBA	High	To provide assurance to management that the KPI's used to manage the Capita contract are clearly defined, monitored and give rise to the desired service delivery for the Council.	ALL		PPC/200/198	
Payment Card Industry Standard (PCI) Compliance	PCI Compliance	RBA	High	To provide assurance to management that arrangements are robust for appropriate operation of PCI controls.	ALL		R143	

Physical Security and environmental controls	Review of the Controls in the Town Hall server room	RBA	High	The relocation of new services to the Town Hall has raised the potential risks in the operation of the Town Hall server room. This review will provide assurance to management that such risks have been appropriately mitigated.	ALL			
Eclipse	Outline Business Case	RBA	High	To review and provide assurance to management that the outline business case for the new Eclipse system is adequate to support the project to deliver the require outcomes.	Thriving Neighbourhoods and Communities			
Application Review	Capita One	Application review	High	To provide assurance to management that the application is being operated effectively.	Talking Inequalities			
	OHMS Replacement	Application review	High	To provide assurance to management that the application is being operated effectively.	Thriving Neighbourhoods and Communities			

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	Portfolio RMP	CRR
Resources								
Human Resources	DBS checking protocols	RBA	High	To provide assurance to management that the processes in place for the identification and vetting of staff in line with the DBS processes are appropriately defined and operating effectively.	ALL	AGS	R239	
Customer services	Cashiers Service Review	RBA	High	This element of the Capita contract is being brought back in House in 2016. To provide assurance to management that the processes in place in the service are clearly defined and comply with the requirements of the Council. This will dovetail and compliment work on other aspects of the service such as Health and Safety. The review will also examine the options for the future provision of the service to ensure on-going Value for Money (VFM).	ALL		R174	
Commercial Services	Compliance with procurement policies in devolved contracting areas.	RBA	High	To provide assurance to management that procurement activities which are not undertaken directly by the Commercial Service mainly in Housing Service, Communities, CDS (Place) and CYPS (Excluding Schools) are being undertaken in line with prescribed Council processes.	In touch organisation		R11/R29/R5/R192	
	Controls for the operation of the Integra Supplier portal.	RBA	High	To provide assurance to management that controls in place for the operation of the Integra Supplier portal are operating effectively.	In touch organization/ Strong Economy	AGS	R3/ R194/ R262/ r264	

Finance	Sheffield City Region - Sheffield City Council interactions	RBA	High	To provide assurance to management that Council has adequate controls in place to manage the interactions between itself and Council.	Strong Economy		R262/R179/R282	
	Replacement of the Council's AIM system	RBA	High	To provide support to management in the introduction of the new AIM system (this system is used to allocate all income received by the Council to the appropriate debtor accounts)	All	AGS	R264	CR115
Resources Cross Cutting review	Achieving Savings	RBA	High	To provide assurance to management that arrangements support the effective and timely delivery of agreed savings.	Strong Economy		PPC 5/R10	CR115
Finance Refine Project	Refine Project	RBA	High	The Refine project is to replace the Councils General Ledger, Creditors and Debtors systems and associated controls. Time has been allowed to support the project and to provide Internal Audit input at appropriate times. The elements to be covered will include the arrangements for testing the system and the examination of output. The evaluation and testing of interfaces. The cut over of data and reconciliation of the current system to the new Integra system. Internal Audit will also provide guidance on control arrangements as they arise.	All	AGS	R174/R264	CR 115
	General Ledger reconciliation processes	RBA	High	To provide assurance to management that all ledger reconciliations required for the effective operation of the new Integra system have been identified and that they are being undertaken in a timely and controlled manner.	All		R174	CR98
	Refine Project review	RBA	High	This review will be undertaken at the end of the project to identify any areas where lessons can be learnt for future projects.	N/A	AGS	R264	CR115

Transport and Facilities Management	MOT bay processes and income	RBA	High	This is a high cash income area. To provide assurance to management that controls in place for the operation of the service are effective and to examine the potential to move to non cash income.	Strong Economy	AGS	R174/ R118	
	Support to the insourcing of the Kier Contracts	RBA	High	The Kier service is to be reintroduced into the Council from 2017 and this review will be to provide assurance to management that the arrangements for the preparation of this significant move have been fully defined and are being implemented effectively	In-touch organisation			
Legal Services	Directors Assurance Mapping	RBA	High	To provide assurance to management that the Council has adequate governance arrangements in place and that these are operating effectively.	All			
Annual Accounts	Production of the leases note for the Annual Accounts.	RBA	Statutory	To provide support to management in the production of the Councils' Annual Accounts. (this will also provide experience required by the CIPFA trainee working in the service).	Not Applicable		R147	
Policy, Performance and communications	Performance management and reporting	RBA	High	The council has a new performance management processes for the recording and reporting of KPI's. This review will provide assurance to management that the processes are clearly defined and reported effectively.	All		PPC 23	
Follow-up reviews	Petty Cash Central Controls	Follow-up reviews	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was High				
	Corporate mail Procedures	Follow-up reviews	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was High				

	External Funding	Follow-up reviews	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was High				
	Activity Sheffield	Follow-up reviews	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was High				
	Sickness Absence	Follow-up reviews	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was Medium - High				
	Payroll Pension Arrangements	Follow-up reviews	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was Medium - High				
	Vehicle Management	Follow-up reviews	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was Medium - High				
	Capita Single Person Discount (SPD) review process.	Follow-up reviews	Medium	Progress made and updated position against the original recommendations made and actions agreed by management. Original audit opinion was Medium - High				

Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	Portfolio RMP	CRR
Investigations								
Re-active Investigations	Time for investigations	Investigation	High	Undertake investigations and support service managers where there are allegations of potential fraud.	All	AGS	R158	
	Advice to Management	Investigation	High	This is a resource to provide ad-hoc advice to management across the Council in relation on-going management investigations.	All	AGS	R158	
	Report to Members on the outcome of the fraud Investigation work	Investigation	High	To coordinate the submission of data for the annual protecting the public purse exercise and for reporting this through to Members of the Audit Committee.	All	AGS	R158	
	Follow-up - Council Investigation review	Follow-up	Medium	To provide assurance to Members and Management that appropriate progress has been made on the outcomes from the corporate review of investigations processes.	All	AGS	R158	
	To review and updated the Councils anti fraud policies including: Money Laundering Anti Bribery Policy Fraud Response plan	Advisory	High	To provide assurance to Members and Officers that the policies in place are adequate and up to date to ensure that they are operating satisfactorily.	All	AGS	R158	
National Fraud Initiative (NFI)	NFI Data Matching output year	Advisory	Statutory	Legal requirement - This is to coordinate the Councils data extraction processes for the mandatory NFI process.	All	AGS	R158	

Housing Benefit	Housing benefit review	RBA	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.	All	AGS	R133 & R135	CR120
Governance Arrangements./ Pro-Active Fraud prevention	Declarations of Interests and gifts and Hospitality	Proactive Fraud work	High	To provide assurance to management that there are adequate processes in place to ensure that gifts and hospitality is identified, reported and authorised. Also that declarations of interest returns are completed on a timely basis.	All	AGS	R158	
	Staff Expenses Claims	Proactive Fraud work	High	This is to provide assurance to management that the Council has in place adequate systems and procedures to minimise fraudulent activity and to ensure that such activity is identified and dealt with via appropriate mechanisms. This will included the testing of transactions from a fraud prevention perspective.	All	AGS	R158	
	Right To Buy	Proactive Fraud work	High	This is to provide assurance to management that the Council has in place adequate systems and procedures to minimise fraudulent activity and to ensure that such activity is identified and dealt with via appropriate mechanisms. This will included the testing of transactions from a fraud prevention perspective.	All	AGS	R158	

	Cashiers Transactions (to be conducted in parallel with the review of cashiers)	Proactive Fraud work	High	This is to provide assurance to management that the Council has in place adequate systems and procedures to minimise fraudulent activity and to ensure that such activity is identified and dealt with via appropriate mechanisms. This will included the testing of transactions from a fraud prevention perspective.	All	AGS	R158	
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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								
	Debtors	compliance	High	The system in place for managing and controlling debtors is working effectively and efficiently. Provides assurance to External Audit.	1			
	Creditors (P2P)	compliance	High	The system in place for managing and controlling creditors is working effectively and efficiently. Provides assurance to External Audit.	1			
	Payroll	compliance	High	The system in place for managing and controlling payroll is working effectively and efficiently. Provides assurance to External Audit.	1			
	Council Tax	compliance	High	The system in place for managing and controlling council tax is working effectively and efficiently. Provides assurance to External Audit.	1			
	NNDR	compliance	High	The system in place for managing and controlling NNDR is working effectively and efficiently. Provides assurance to External Audit.	1			
	Portfolio finance controls (Place)	compliance	High	Following reviews in other portfolios, that the arrangements for financial controls in Place are robust and effective. Provides assurance to External Audit.	1			

	Combined Authority - cash book testing	compliance	High	A review of the controls in place for combined authority cash book transactions	1			
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NB: As per the protocol with External Audit, the main financial systems are currently defined as:

- Payroll (and associated sub systems such as pensions)
- Purchase to Pay (ordering and accounts payable).
- Accounts Receivable (sundry Debtors) - Debt Recovery Processes
- Corporate Finance Budgetary control – Including Portfolio budgetary control)
- Main Accounting System incl Bank reconciliations
- Asset Management Systems
- Council Tax Income
- National Non-Domestic Rates (NNDR) system
- Housing Benefits and Council Tax Benefits Payments systems.
- Treasury management
- Rent income control

First Call List								
Area	Audit Title	Audit Type	IA Assessed Risk	Proposed assurance to be obtained	Corporate Plan Link	AGS	CRR	Portfolio RMP
Place								
Place Regeneration and Development	Grant - Department for Environment, Food and Rural Affairs (DEFRA) Air Quality Grant 2013/14	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. Grant to be used to produce a communication plan, a prelude to a major capital project expected to be the outcome of the Air Quality Study. Required by 31.10.13, however an extension has been provided by DEFRA indefinitely.	3 & 5			
Regeneration and Development Services	South Yorkshire Forest Partnership (SYFP)	RBA	Medium	Assurance in relation to succession planning, funding arrangements for this partnership and any 'lessons learnt' that can be transferred to other similar arrangements.	3 & 5			
Place Regeneration and Development (also link to Public Health)	Air Quality	RBA	Medium	Assurance that the Council is not breaching European Union (EU) thresholds for air quality. To establish if there is effective monitoring and reporting arrangements on air quality, including financial management (funding and areas of spend) and monitoring of the Air Quality Action Plan and working with key stakeholders.	3 & 5		Place 251	
Place - Business Strategy and Regulation	Medico-Legal and Coronial Services	RBA	Medium	To provide assurance to management that the service controls are adequate and been operated in an effective manner, this will cover; management controls, budget setting and monitoring, KPI's/targets and performance monitoring and reporting arrangements.	N/A		Place 242, 243, 246 & 282	
CYPF								

CYPF - Inclusion and Learning (ILS)	Inclusion and Learning Service Review	RBA	Medium	The service is currently undergoing a restructuring exercise. The scope of the audit will be defined following this restructure but may cover management controls, budget setting and monitoring, KPI's/targets and performance monitoring and reporting arrangements within a specified service area.	4			
CYPF - Children and Families	Gibson House	RBA	Medium	To provide assurance to management that the centres controls are adequate and operating in an effective manner, this will cover; management controls, financial controls, Human Resources and performance monitoring and reporting arrangements.	4 & 6			
CYPF - Children and Families	Independent Review Services	RBA	Medium	To provide assurance that this service area has adequate and robust controls in place to provide effective service delivery.	4			
CYPF - Children and Families	Attendance Strategy	RBA	Medium	To provide assurance that the Multi-Agency Support Teams (MAST) are performing well against the Services Attendance Strategy. Helping to improve both children's attendance at school and their performance.	4			
Communities								
Communities	Commissioning - Better Care Fund (BCF) 1	RBA	High	A piece of work to be delivered across the BCF pooled budget area, working in liaison with Health auditors. Yet to be scoped.	4			
Communities	Deprivation of Liberty Safeguards (DOLS) - court of protection	RBA	Medium	A review of the court of protection process for DOLS to ensure it is effective, efficient and fit for purpose	4			

Communities	Care and Support - Shared Lives initiative	RBA	Medium	That controls regarding the SL initiative are working.	4			
Communities	Safeguarding controls in Sheffield Health and Social Care Trust (SHSCT)	RBA	High	Audit of the controls in place regarding the operation of the safeguarding service delivered by the SHSCT	4			
Communities	Commissioning - non delegable duty of care	RBS	Medium	A review of the controls in place on the mitigation of risks with third party providers, with regards to duty of care.	4			
Communities	Commissioning - response for care provider failure	RBS	Medium	Have we got the appropriate response in place when/if care providers fail?	4			
Communities	Commissioning - Real time monitoring	RBS	Medium	A review of the system in place with special focus on the quality of provision and money involved. Previous concerns about the time it takes to get packages altered.	4			
Communities	Commissioning - Waivers	RBA	Medium	A review of how waivers are used - ensure the corporate process is followed.	4			
Communities	Community Services - voluntary/ community sector	RBS	Medium	A review of how robust the commissioning of processes with the vol-comm sector is.	3, 4			
Communities	Housing - Housing General Fund	RBA	Medium	To provide assurance that the controls in place for the management of the fund are robust	4			
Communities	Housing - Letting policy and turnarounds	RBS	Medium	To provide assurance that there is a timely and effective system in place for the relating of properties following re-furbishment	4			

Communities	Housing - Estate office	RBA	Medium	To provide assurance that the revised delivery model is fit for purpose.	3, 4			
Communities	Housing - Debt Management in SCAS/Housing	RBA	Medium	A review of the controls in place relating to debt management.				
Communities	Housing - SCAS - stakeholder involvement	RBA	High	A review focussing on the controls in place around the effective involvement with SCAS's internal and external providers.	4			
Communities	Housing - SCAS - performance management framework	RBA	Medium	To provide assurance that performance management relating to SCAS performance is effective. (include payment of providers)	4			
Communities	Housing - SCAS - deferred payments	RBA	Medium	To provide assurance that the system in place for dealing with deferred payments for clients is robust	4			
Corporate								
Corporate	Risk Management - Integration of project and programme risks	RBA	Medium	To provide assurance on the integration of project and programme risks to the corporate risk management system.	1			
Corporate	Risk Management - quality of risk mitigation	RBA	Medium	To provide assurance on the quality of risk mitigation across the council.	1			
Resources								
Resources - Human Resources	Grey Fleet processes	RBA	Medium	The grey fleet is determined as any vehicles which are used for the benefit of the Council, but which do not form part of the Council's operational Fleet (i.e. Officer cars for which expenses are claimed). To provide assurance to management that the risks associated with the grey fleet have been identified and appropriately mitigated.	Not Applicable			

Resources - Human Resources	Human Resources Key performance Indications for the Capita contract.	RBA	High	To provide assurance to management that the KPI's used to managed the HR. element of the Capita contract are clearly defined and reported so as to ensure that the Contract delivers the required output for the Council in an effective and efficient manner.	ALL	AGS	R52	
Resources - Commercial Services	Corporate Contracts Register	RBA	Medium	To provide assurance to management that Council's Contract register is up to date and is being used effectively when goods and services are procured.	Strong Economy		R35	
Resources - Finance	Income Forecasting of Council Tax and National Non Domestic Rates	RBA	Medium	To provide assurance to management that, the arrangements for the forecasting of income derived from Council Tax and NNDR are accurate and timely.	ALL		R174	CR98
Resources Transport and Facilities Management	Re-integration of the Kier Kaps service.	RBA	Medium	To provide assurance to management that the Kier Kaps integration has been undertaken effectively.	In-touch organisation		R198	
Investigations/Pro-Active								
Pro-Active Investigations	Blue Badges/ Travel Permits/ Residents Permits	Proactive Fraud work	High	This is to provide assurance to management that the Council has in place adequate systems and procedures to minimise fraudulent activity and to ensure that such activity is identified and dealt with via appropriate mechanisms. This will included the testing of transactions from a fraud prevention perspective.	All	AGS	R158	

Pro-Active Investigations	Council Tax Support	Proactive Fraud work	High	This is to provide assurance to management that the Council has in place adequate systems and procedures to minimise fraudulent activity and to ensure that such activity is identified and dealt with via appropriate mechanisms. This will included the testing of transactions from a fraud prevention perspective.	All	AGS	R158	
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Summary	no of audits	High	Medium	Statutory
Place	3		2	1
CYPF	4		4	
Communities	16	3	13	
Resources	5	1	4	
Investigations	2	2		
Corporate	2		2	
Total	32	6	25	1

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Agenda Item 11

Audit Committee Report

REPORT TO AUDIT COMMITTEE

DATE

14th April 2016

REPORT OF Interim Director of Finance.

ITEM

SUBJECT **Internal Audit Annual Fraud Report**

SUMMARY

The purpose of this report is to inform the Audit Committee of the Council's Internal Audit Section's work on fraud and corruption, the outcomes of the work from its investigations and the outcomes of the National Fraud Initiative.

RECOMMENDATIONS

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

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
66

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 Council's Audit Committee
Fraud and Investigations
April 2016

Purpose of the Report

1. This report is to “those charged with governance” in the case of Sheffield City Council the Audit Committee, to show the work that has been undertaken within Internal Audit regarding Counter Fraud and Investigations and how this fits into the national picture. It will provide assurance on the work undertaken.
2. This is the first Internal Audit report on the work undertaken by Internal Audit on investigating fraud and corruption since two significant changes occurred in the way that this type of work is organised.
3. The creation of the Single Fraud Investigation Service (SFIS) by the Department of Works and Pensions (DWP) in February 2015 has removed the requirement for Local Government to investigate housing benefit fraud. This was by far the largest element of fraud investigation undertaken by the Council. At the same time the resources that SCC used in CAPITA to undertake this work was transferred to DWP. This reduced the Council’s overall workload, but also the resources available to undertake investigations.
4. Following the demise of the Audit Commission, their roles relating to fraud in Local Government have been split, with the Cabinet Office taking on the areas related to the National Fraud Initiative (NFI) and CIPFA being charged with developing an overall strategy for fraud across Local Government and developing the tools and training to allow this to be done in an effective manner.
5. Previously there was a requirement for the Council to take part in a national survey on fraud undertaken by the Audit Commission called protecting the public purse. We were informed that this exercise would not take place. However at short notice two bodies came forward to undertake this exercise, each producing their own version. Due to the short notice and the work involved, a decision was taken not to take part in either exercise in 2015.

6. At the end of the report we have provided a checklist similar to previous years to provide the Audit Committee with assurance on the robustness of the Council's Counter Fraud arrangements.

Introduction

7. The current level of fraud reported in Local Government is approximately £200 million; the actual level is estimated to be much higher than this at anything up to £2.1 billion. The total public sector fraud is estimated at £22 billion. The most significant areas by value is housing benefits and housing tenancy fraud together accounting for 65% of the total. The most prevalent frauds committed relate to single person discount fraud which make up over half of the reported frauds (but are of smaller value).
8. These level are significant and obviously reduce the resourcing available for front line services.
9. Sheffield City Council has robust processes to try to prevent and detect fraud. These have been reviewed and are included in the appendix to this report. The work of Internal Audit will also reduce the prevalence of frauds, by ensuring services and processes have robust controls in place.
10. The report highlights the work of Internal Audit in the current year and proposed developments that are going to be undertaken going forward.

Work undertaken in 2015/6

11. The volume of investigations undertaken by the Council significantly decreased as housing benefits work is no longer undertaken by the Council. The volume of cases undertaken by Internal Audit however has remained fairly static. In the current year, Internal Audit directly undertook 15 investigations reported to us by management. These were investigations which by their nature required specialist Internal audit skills and direct input. We were also involved in giving advice on a further 20 cases where the investigations remained with management.
12. These cases covered all areas of the Council from false claims for services/benefits (blue badge applications) to theft and falsification of mileage claims. In all cases these were dealt with efficiently and following investigations appropriate sanctions were applied where the issues were found to be proven.
13. This led to a number of dismissals and other sanctions. In no case was it found that the losses were significant (in relation to the services being processed) or that there was evidence of organised fraud. Where issues were identified during the investigation these were reported to management for action. In addition, where warranted further work was

undertaken in the form of additional reviews. This has led to three recent high opinion reports being produced in relation to the Cycle Assistance Scheme, Activity Sheffield and Corporate Mail which have been (or will shortly) be distributed to the Audit Committee.

14. In addition Internal Audit was made aware of five more significant issues though whistle blowing procedures (four internally and one externally). These issues were all discussed with the Director of Finance and based on the allegations received more significant investigation. In all cases there was potential for significant fraud; however in all cases there was no evidence of fraud taking place and no action was recommended against employees. Again reports were produced to highlight where procedure could be tightened. These were agreed by management and have been included in the normal audit work plan for 2016/17 where the level of risk warrants this.
15. Four pieces of counter fraud work were undertaken and these did not identify any instances of fraud being undertaken.
16. In addition there was additional work on data matches relating to the NFI exercise which are reported later.

The Anti-Fraud plan for 2016/17

17. As can be seen from the Internal Audit plan for 2016/17 approximately 12% of the plan or 191 days is allocated to anti-fraud matters.
18. The plan covers 5 areas.
 - Time for investigations (this is an allocation of time from which individual investigations are allocated).
 - Time to review and update the Council's anti-fraud arrangements.
 - Time to undertake work on the National Fraud Initiative providing the required data sets that will be matched for checking in the following year.
 - Time to undertake an annual review of the Housing Benefits processes.
 - A limited number of four reviews to review areas from an anti-fraud perspective which have been risk assessed as having a higher potential to fraud. This can be for a number of risk factors such as cash handling, or where control weaknesses were identified in the past. In the current year this will include, staff expenses payments,

Right to Buy applications, petty cash expenditure and the completion of gifts and hospitality and declarations of interest.

19. At present, based upon the level of referrals in the past few years the resourcing should be adequate. However if the number of investigations should increase or become more complex, than resources may need to be reallocated in this area.

National Fraud Initiative (NFI)

20. This is a biannual exercise, which is organised through the Cabinet Office previously the Audit Commission. The Council is mandated to supply a number of data sets covering such areas as payroll, pensions, creditors, debtors, housing tenants, supported care home residents, blue badge holders, insurance claims and the electoral roll.
21. A national exercise is undertaken to collate this information electronically and where appropriate to provide data matches. These could be frauds or error, but in most cases are a result of issues like timing differences in the data.
22. The National Fraud Initiative (NFI) for 2014/15 is now all but complete. The required data sets were submitted in 2014, this resulted in a significant number of data matches which were received in early 2015. The matches were distributed to the relevant sections across the Council and Capita who are responsible for checking these matches, taking the appropriate actions (recovery and sanctions) and for recording the outcomes onto the central NFI database
23. Internal Audit have provided support where required and have monitored and followed up actions until the cases were closed. At the end of March 2015 only a small number of cases remain to be resolved. Internal Audit have checked the outcome and provide the required declaration that the exercise has been undertaken appropriately.
24. The summary of the work undertaken was that a total of 15,666 potential matches were received back by the Council for potential investigation, of these 6,148 were the more significant recommended matches.
25. A total of 5037 matches have been processed to date with a further 48 (more complex cases) still in progress. The difference between the 5037 case and the 6148 recommended matches is due to blue badges. It was decided that due to resources only 1548 of the total 2663 matches were examined as there were only eight potential issues found in the 1548 checked, this approach was appropriate.

26. The results of this work were as follow:

- 168 errors were identified.
- 23 frauds/ fraud referrals were made.
- 7 Blue Badges holders were confirmed as deceased.
- 1 taxi driver licence was revoked
- 49 National Insurance Numbers (NINO) were corrected.

27. The total value of the errors identified was £155,174.18 (including £134,731 housing benefits overpayments in recovery).

28. The Cabinet office have taken responsibly for this exercise going forward and have initiated contact for the data sets to be provided for the next exercise later this year.

29. There is now the facility to request additional matching exercises where this is appropriate. This facility will be taken up where appropriate.

Other Potential Fraud Issues.

30. The Council has a number of standard processes which detect and remove potential frauds. Although these have the potential to be frauds, they dealt with as errors and are excluded from fraud recording.

31. Examples of the types of issue that we are referring to above are:

Insurance Claims – We have a number of instances where false or exaggerated claims have been submitted to the Council. These were found during checking procedures and were refused payment.

Housing Tenancy Fraud – We have a number of investigations within the Council which have led to properties being returned to the Council for re-tenanting, these may well have been as a result of fraud. The key aim is the recovery of the property and therefore there is little incentive in obtaining the additional evidence required to prosecute the fraud once the property has been returned. The resources are focused on property recovery.

Bank Mandate Fraud – We have had a series of bank mandate frauds which simple checking have prevented being processed. The potential cost for these is significant. We have reported these issues to the police; however the response from the relevant forces across the country has been weak. This is primarily due to the fast movement of the crime. These frauds are all reported on line to Action Fraud for follow-up by the police.

Thefts – We have had a number of instances of suspected thefts in the Council which the police have agreed for us to investigate and deal with through the council's due processes. The police deal with these as low level instances and often the cases will not meet the higher burden of proof required for criminal prosecution by the Crown Prosecution Service.

Timesheet Fraud – We have had a number of these cases which have been dealt with through the Council's processes, often leading to dismissal, but which do not meet the criminal prosecution threshold required by the police.

32. All of these issues highlighted are classed as suspicious incidents; these however were not prosecuted or reported as fraud (except bank mandate fraud). It could be that other Councils have similar cases, or that they classify cases differently.
33. The types of fraud that are included in the "non-benefit fraud" category primarily consist of; council tax fraud, procurement fraud, abuse of position, payroll pensions and expenses fraud, disabled parking concession fraud, false insurance claims and social care fraud.
34. It is noted in the report that the largest number of tenancy related frauds are identified in London. This is primarily because the incentive for such activity is far larger due to the disparity between the cost of social housing rents and private property values in the capital.
35. The increase in discounts available could increase this fraud in Sheffield and as such Right to Buy has been included in the 2016/17 Internal Audit plan.

Checklist for those responsible for governance.

36. A checklist similar to previous years is included at Appendix A. This highlights the Councils processes compared to best practice. CIPFA is developing a new process that will be used for this exercise in future years.
37. 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. An e-learning course has been developed and made available to assist any identified staff development requirements.
38. It is noted that Internal Audit are currently conducting an audit of the investigation processes across the Council. The outcome of this should

show how embedded the fraud management processes are into Councils processes. Any issues raised will lead to future developments.

Developments in fraud investigation across the council.

39. The Council remains committed to having strong controls in place in its systems to prevent fraudulent claims and to have control mechanisms to minimise their impact where they do occur. Claims of fraud are examined and where there is evidence, they are investigated in line with the Council's due processes. Whilst resources are increasingly under pressure, it is a key requirement that losses through fraud are minimised and monies recovered to support front line services.
40. The Council has bought a new platform for eLearning and the fraud course will shortly be updated and rolled out across the Council. Supporting policies on Money Laundering etc. will also be updated as part of this development work.

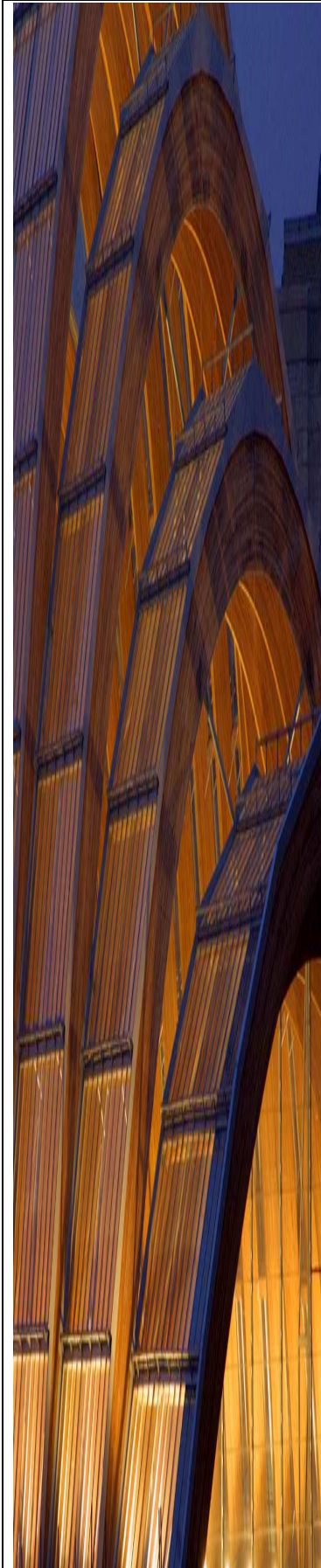
Training and Staff Development

41. With the transfer of staff to DWP the number of trained fraud investigators has diminished within the Council. It was agreed by the finance leadership to fund the training of two current members of Internal Audit to CIPFA's Accredited Counter Fraud Specialist (CACFS) from within the current training budget. Due to changes in staffing in the service one individual was trained and qualified during the year. Additional training will be reviewed on an on-going basis.

Recommendations

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

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Governance Checklist for Fraud 2015/16

**Sheffield City Council
April 2016**

**Prepared by Internal Audit
on Behalf of the Audit
Committee**

Introduction

In previous years the Audit Commission has included a checklist appended to the Protecting the Public Purse report. This checklist identifies to Members the key elements that are required to manage the risk of fraud across the Council. The Checklist has been updated for the current year. It is noted that CIPFA have in the past couple of weeks produced a new set of guidance and control matrices which will be used in the future and will be presented to the audit committee going forward.

The checklist allows councils to evaluate their arrangements. This document seeks to evaluate the arrangements in place within Sheffield City Council

This document has been prepared by Internal Audit 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 investigation of fraud that may occur within the Council.

General	Yes	No
1. Do we have a zero tolerance policy towards fraud?	✓	
<p><u>Actions</u></p> <p>The Policy Statement - Fraud & Corruption incorporates a message from the Chief Executive which clearly states the 'zero tolerance' approach of the authority. It incorporates the fact that any instances of fraud or corruption will be treated as gross misconduct. The Policy Statement forms part of the Corporate Code of Conduct for Employees.</p> <p>The 'zero-tolerance' message was included in fraud awareness training events which were delivered to managers/employees across SCC. This message was also incorporated into a fraud awareness course available to staff via e-learning.</p>		
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with Fighting Fraud Locally?	✓	
<p><u>Actions</u></p> <p>The following fraud related strategies, policies and plans are in place:</p> <ul style="list-style-type: none"> Financial Regulations 2015 Code of Conduct for employees Policy Statement – Fraud & Corruption (Appendix to the above) 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 Risk Management Toolkit Fraud Risk Management guidance Annual Governance Statement (Fraud Risks) Fraud awareness e-learning module. 		

	Yes	No
3. Do we have dedicated counter-fraud staff?	✓	
<p><u>Actions</u></p> <p>Service Managers are responsible for the investigation of fraud within their respective areas. Internal Audit has accredited officers available to investigate larger scale allegations and provide advice to managers.</p> <p>Internal Audit has a limited resource for Fraud investigation as outlined in the Annual Plan. Presently there are two qualified fraud investigator in the service.</p> <p>There are dedicated officers in trading standards and in housing to investigate housing tenancy fraud</p>		
4. Do counter-fraud staff review all the work of our organisation?		✓
<p><u>Actions</u></p> <p>Internal Audit maintains a resource to address fraud issues e.g. policy issues, serious allegations etc. and the Internal Audit plan contains a small number of counter fraud exercises to review specific fraud risks.</p> <p>Service Management has the primary responsibility for internal fraud investigation (with the support of Human Resources).</p> <p>Internal Audit operates a risk based approach to auditing and key risks are identified for inclusion in the audit plan in conjunction with Service management. Internal Audit considers fraud risk for inclusion in the scope of each audit review.</p> <p><i>Internal Audit are currently undertaking a review of the investigation process and its application across the council to ensure that these are undertaken in an efficient and effective manner.</i></p>		
5. Does a councillor have portfolio responsibility for fighting fraud across the council?		✓
<p><u>Actions</u></p> <p>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 are responsible for fraud in their area, and are held to account by the Council as a whole.</p> <p>The Audit Committee receive reports on Fraud arrangements across the Council.</p>		

	Yes	No
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	✓	
<p><u>Actions</u></p> <p>The Annual Governance Statement provides a level of assurance that fraud risks have been identified and addressed.</p> <p>The Internal Audit Plan is endorsed by the Audit Committee on an annual basis and the Senior Finance manager (Internal Audit) produces an annual report which includes information on counter fraud activities.</p> <p>A bi-annual Risk Management report is submitted to the Audit Committee.</p> <p>Individual investigation reports are provided for serious incidents.</p>		
7. Have we assessed our management of counter-fraud work against good practice?	✓	
<p><u>Actions</u></p> <p>A full review of SCC practice compared against CIPFA's 'Red Book 2' was completed in 2013. A new code was produced by CIPFA at the end of March 2016 and we will review our practice against this. In preparation for this Internal Audit has undertaken a questionnaire with a quarter of Sheffield City Council staff to gauge their understanding of anti-fraud culture and where these need to be strengthened. Internal Audit have also attended National Anti-Fraud Network Conference and South and West Yorkshire investigators forums where best practice is shared and this is incorporated into our methods of working.</p>		
8. Do we raise awareness of fraud risks with:		
■ new staff (including agency staff);	✓	
■ existing staff;	✓	
■ elected members; and	✓	
■ our contractors?	✓	
<p><u>Actions</u></p> <p>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 full code, but specific fraud issues pertinent to these posts are specifically raised with the individuals concerned.</p> <p>Additional training has been provided to key staff on request. In addition there is an online training programme for fraud. This will be updated shortly, now that the Council's eLearning platform has been updated. Member training will be reviewed following the next local election and Members will be given access to the eLearning package.</p> <p>A campaign will be launched to highlight to all staff and the wider public the Councils fraud identification and how to report fraud.</p>		

Fraud awareness is not currently included in the corporate induction programme beyond the requirement to read the Code of Conduct for employees (incorporating the Policy Statement – Fraud & Corruption).

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.

	Yes	No
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 fraud Investigators Group.

Internal Audit & Capita work directly with the Department of Work and Pensions, the Local Authority Investigation Officer Group and the National Anti-Fraud Network.

There is a Service Level Agreement (SLA) in place between the Council and Department for Works and Pensions (DWP) to cover the requirements brought in as a result of the new Single Fraud Investigation Service (SFIS)

The National Anti-Fraud Network (NAFN) 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.

As CIPFA has now become the lead Accountancy Body for fraud governance arrangements in local Councils, following the demise of the Audit Commission. Internal Audit is closely monitoring developments and will use the new guidance produced by CIPFA to benchmark its services against.

	Yes	No
10. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	✓	
<p><u>Actions</u> As 9 and 10 above plus:</p> <p>The Cabinet Office National Fraud Initiative (NFI) operates under formal arrangements and provides for the sharing of data between local authorities and other participating organisations. As part of the South and West Yorkshire investigators group information on fraud issues is shared on a regular basis. A shared portal has been developed by Cheshire Council to allow this to be undertaken in an easier way.</p> <p>Internal Audit maintains an informal working arrangement with South Yorkshire Police.</p> <p>We also use the online reporting system to Action Fraud.</p>		
11. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	✓	
<p><u>Actions</u></p> <p>The annual Internal Audit Plan includes 'risk-based' audits based on a risk assessment and discussion with Service Directors. Each of these reviews includes an assessment of the internal controls within scope to identify instances in which they are not present or not working effectively. Auditors consider fraud risks for each assignment.</p> <p>Where appropriate recommendations are made to improve internal controls at the conclusion of each review, implementation is confirmed with the client and followed up.</p> <p>A small number of pro-active counter fraud reviews are included in the Internal Audit Plan that focus on activities where, due to the nature of the service, the risk of fraudulent activity is heightened. At the conclusion of appropriate re-active investigations, systems and controls are reviewed to identify weaknesses and to recommend improvements to prevent future instances of fraud both within the relevant service area and corporately.</p> <p>A number of audits were undertaken following investigations to provide assurance to service areas where flawed internal controls had been identified during the investigation process.</p>		

	Yes	No
12. Do we maximise the benefit of our participation in the Cabinet Office National Fraud Initiative and receive reports on our outcomes?	✓	
<p><u>Actions</u></p> <p>The Council has been a participant in the NFI since 1995. Data matches are circulated to all relevant service areas and Capita for examination and resolution. Internal Audit maintains a coordinating and advisory role in addition to responsibility for examination of some data matches and validates the outcomes prior to the conclusion of each exercise.</p> <p>SCC participated in the NFI Council Tax, single person discount data matching exercise for the first time in 2012 and is now an annual exercise. During the year Internal Audit reviewed the arrangements undertaken by Capita with regards to single person's discount, it was observed that their process was more robust than the NFI as it included additional data matches and filters. Going forward the Capita process will be used instead of the NFI process for this one aspect.</p> <p>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 following the pilot this dataset is now included in the two yearly exercise.</p>		
13. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	✓	
<p><u>Actions</u></p> <p>SCC has adopted a detailed Anti Money Laundering Policy. This document includes an appendix which contains guidance to staff and is available via the Intranet. Incidents are reported to Internal Audit and in turn the Serious Organised Crime Agency where appropriate.</p>		
14. Do we have effective arrangements for:		
■ reporting fraud?; and	✓	
■ recording fraud?	✓	
<p><u>Actions</u></p> <p>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.</p> <p>Fraud attempts against SCC have also been reported to Action Fraud.</p> <p>Although the above controls are in place, full compliance cannot be assured.</p> <p>A key issue to be reviewed going forward is to identify and record not only proven fraud activity, but also areas which are serious issues are identified, but where actual fraud is indicated, but not proven.</p>		

15. Do we have effective whistle-blowing arrangements? In particular are staff:		
	Yes	No
■ aware of our whistle-blowing arrangements?	✓	
■ have confidence in the confidentiality of those arrangements?	✓	
■ confident that any concerns raised will be addressed?	✓	
<p><u>Actions</u></p> <p>SCC has adopted an extensive Whistleblowing Policy that contains an explanation on whistleblowing arrangements and the reporting access routes including the details of designated contact officers. The Human Resources Service maintains a central register of allegations. Whistle blowing allegations are all reviewed and where appropriate fully investigated by someone independent of the area.</p> <p>Although the above controls are in place, full compliance cannot be assured. It is noted that during the current year the number of whistleblowing actions with the potential to uncover fraud has risen. These are always dealt in confidence and followed up promptly.</p>		
	Yes	No
16. Do we have effective fidelity insurance arrangements?	✓	
<p><u>Actions</u></p> <p>SCC's fidelity insurance covers every employee to a limit of £10M.</p> <p>There is annual requirement to complete a pro-forma for the fidelity guarantee insurance. This is undertaken by the Insurance Section with input from Internal Audit. This has been recently completed for the forthcoming year and accepted by the insurance company.</p>		
Fighting Fraud with reduced Resources	Yes	No
17 .Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once the SFIS has been fully implemented?	✓	
<p><u>Actions</u></p> <p>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. The resources are under review as there is very little capacity in the system should a major incident (or a number of smaller incidents) occur.</p> <p>The staff transferred to SFIS only dealt with the Benefits fraud work which is being transferred. The level of remaining resource is adequate for the workload in the Internal Audit plan. In order to provide additional capacity and to provide the required resilience, funding has been allocated to train an additional fraud investigator.</p>		

Current risks and issues	Yes	No
Housing tenancy		
18. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	✓	
<p><u>Actions</u></p> <p>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.</p>		
19. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	✓	
<p><u>Actions</u></p> <p>Home visits and day to day contact with tenants provides assurance on occupancy however resources have been allocated to recover properties identified. The NFI process also identifies issues with tenancies.</p> <p>The 2016/17 Internal Audit plan includes a Counter Fraud review of the arrangements in this area.</p>		
Procurement		
20. Are we satisfied our procurement controls are working as intended?	✓	
<p><u>Actions</u></p> <p>Internal Audit conducted audits in this area in 2015/16. The reviews covered the Purchase to Payment review covering the creditors systems. Other reviews covered specific aspects of the process such as the procurement arrangements for the revised EU regulations. The audits resulted in Internal Audit issuing a 'Medium – Low' opinion on the risk of the service not achieving its objectives.</p> <p>Reviews of the Councils major contractors and tendering processed have not revealed any significant issues.</p> <p>Several audits have been included within the 2016/17 plan to examine this.</p>		
21. Have we reviewed our contract letting procedures to ensure they are in line with best practice?	✓	
<p><u>Actions</u></p> <p>Aspects of contract letting feature in the Internal Audit annual plan. 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.</p> <p>A review of the areas of devolved procurement across the Council will be examined as part of the 2016/17 plan.</p>		

Recruitment	Yes	No
22. 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 now 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 2015 and there were no Immigration matches identified.

Council tax discount	Yes	No
23. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	✓	

Actions

A review of the new Council Tax Support which is Local Authority administered and replaced Council Tax Benefit was conducted in 2014/15 and no significant issues were noted.

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.

A review of the Single Person Discount processes carried out by Internal Audit in 2015/16 showed that the Capita processes were more stringent than those in the NFI process (including more data matches and filter) and were being carried out effectively.

Other fraud risks	Yes	No
24. Do we have appropriate and proportionate defences against emerging fraud risks:		
■ business rates;	✓	
■ Right to Buy;		✓
■ council tax reduction;	✓	
■ schools	✓	
■ grants	✓	
<p><u>Actions</u></p> <p>Emerging fraud risks are taken into account in the formulation of the Internal Audit annual plan in addition to other identified risks. Examination of emerging risks is included in the scope of planned audits or scheduled for specific future review. For example, a specific review of the Council Tax Support and Hardship Fund was completed in 2014/15. 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 and should have their own arrangements in place).</p>		



SHEFFIELD CITY COUNCIL

Chief Executive's Directorate

REPORT TO AUDIT COMMITTEE

DATE
14th April 2016

REPORT OF Senior Finance Manager, Internal Audit

ITEM

SUBJECT Public Sector Internal Audit Standards (PSIAS) –
External Assessment Process 2016/17

SUMMARY The report presents the proposed approach to the PSIAS requirement for an external assessment of the internal audit service.

RECOMMENDATIONS

To approve participation by Sheffield City Council in the peer review process developed by the Core Cities Chief Internal Auditors group which will address the requirement for an external assessment.

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
17

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

14th April 2016

Senior Finance Manager Report

Purpose of the Report

1. The Public Sector Internal Audit Standards (PSIAS) requires that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team.
2. The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded.
3. The purpose of this report is to seek approval for the method by which the external assessment will be undertaken at the council.

Background

4. There are two possible approaches to external assessments outlined in the standard; either a full external assessment or an internal self-assessment which is validated by an external reviewer.
5. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments; however quotations received were in the region of £11-15k.
6. There are financial savings to members of the core cities group by adopting the peer review approach outlined within this paper. In addition, the approach is in keeping with the promotion of collaborative working arrangements.
7. Whilst participating in the peer review process would incur no direct costs, there would be a time commitment for the audit team to become a reviewer for another authority. An allocation of 5 days has been made to perform the review of Nottingham City Council.
8. The Senior Finance Manager (SFM) is satisfied that the other organisations involved in the peer review have the appropriate qualifications and independence to undertake the review. Subject to agreement of the approach, Leeds City Council will undertake the review of SCC's internal audit service.

Review Process

9. Detailed terms of reference have been devised by the core cities group to explain the principles and approach to be taken. These are attached at appendix 1.
10. Prior to the external assessments taking place, the SFM, Internal Audit will undertake a self-assessment of the Internal Audit service against the PSIAS, which will be evidenced with reference to a range of internal and published documentation.
11. The peer review process will involve a pre-review element where the self-assessment and supporting documentation, produced by the SFM, will be evaluated by the peer review team. In addition, a questionnaire will be issued to key stakeholders at the council to obtain feedback.
12. An on-site visit will then take place and the council will be assessed against the four main areas of the standard:
 - Definition of internal auditing
 - Code of ethics
 - Attribute standards
 - Performance standards
13. A report will then be issued which states whether the internal audit team conforms, partially conforms or does not conform to the standards. This report will be presented to the Audit Committee and will form part of the Internal Audit team's Quality Assurance and Improvement Programme.

FINANCIAL IMPLICATIONS

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

EQUAL OPPORTUNITIES IMPLICATIONS

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

CONCLUSION

16. It is considered that a validation of the self-assessment by an external body would be the most efficient and cost effective use of resources.

RECOMMENDATION

17. To approve participation by Sheffield City Council in the peer review process developed by the Core Cities Chief Internal Auditors group which will address the requirement for an external assessment using a validated self-assessment approach.

Core Cities Chief Internal Auditor Group

External Assessment – Peer Review

Terms of Reference

Purpose of the Paper

At the meeting of the Core Cities Chief Internal Auditor (CIA) group held on the 3rd September 2014 it was agreed that member authorities should begin to formalise the arrangements for their external assessments and develop a clear basis for the approach to undertaking the assessments.

It was agreed that the external assessment process should be undertaken as a peer review whereby one authority would undertake a peer assessment of a different authority within the group. It was also agreed that reciprocal reviews would not be undertaken.

Background Information

Members of the peer group:

Sheffield City Council, Leeds City Council, Liverpool City Council, Birmingham City Council, Nottingham City Council, Bristol City Council, Newcastle City Council, Manchester City Council and Glasgow City Council.

External Assessments:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

The two possible approaches to external assessments outlined in the standard include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- Possess a recognised professional qualification
- Have appropriate experience of internal audit within the public sector / local government
- Have detailed knowledge of leading practices in internal audit
- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer

(or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Purpose of the Review

The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Proposed Approach

Members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external reviewer. The key benefit to this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment with an approximate cost of £15K (based on a quote obtained for the Internal Audit service at Sheffield City Council). They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes approx. 5 working days and costs approx. £11k.

There are financial savings to members of the Core Cities group by adopting the peer review approach outlined within this paper. In addition, the approach is in keeping with the promotion of collaborative working arrangements.

Each authority will determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

A standard template will be devised for the purposes of reporting conformance. A moderation process will be developed to ensure consistency in the severity of issues being reported.

Upon conclusion of the external assessment, the reviewer will offer a 'true and fair' judgement and it is proposed that each authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** to the PSIAS.

Independence and Objectivity

Prior to the assessments taking place all parties will agree the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the

independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should be disclosed. It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

The Assessment Process

Completion of the Checklist:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain;
 - Relevant background information to gain an understanding of the service. This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives).
 - details of responsibilities, resources, structure and activities;
 - details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be require
 - the completed self-assessment and supporting evidence; and
 - Obtain evidence of how quality is maintained and performance is measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

Assessment Phase (on-site visit) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.
- Examine a sample of audit engagements to verify compliance to the PSIAS and procedures.
- Interview key staff to confirm audit procedures and process.
- Undertake an exit meeting with the Head of Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the team's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor
- Head of Internal Audit / Sponsor to report outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

It is envisaged that the assessment process should take 5 days in total.

Proposed schedule

Liverpool review Manchester (50mins, direct)

Bristol review Birmingham (1.5hrs, direct)

Manchester review Glasgow (already underway)

Glasgow review Liverpool (3.5 hrs, 1 train change)

Leeds review Sheffield (1hr, direct)

Sheffield review Nottingham (1hr, direct)

Nottingham review Bristol (3hrs, 1 change)

Birmingham review Leeds (2hrs, direct)



Agenda Item 13

Audit Committee Report

REPORT TO AUDIT COMMITTEE

DATE

14th April 2016

REPORT OF Interim Director of Finance

ITEM

SUBJECT Compliance with International Auditing Standards

SUMMARY

This report has been drafted so that the Audit Committee can demonstrate to the External Auditors and the wider audience, that they have exercised the required oversight 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

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

**FINANCIAL IMPLICATIONS
CLEARED BY**

**No
K Inman**

**PARAGRAPHS
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 2016

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 International Auditing Standards (IAS) there is a requirement for those charged with governance (for 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.
- 2) For the past few years similar reports have been produced for the Audit Committee to enable them to demonstrate that they have taken the appropriate overview of the entire governance framework of the Council, and have therefore exercised the necessary oversight to meet the requirements of the International Standards on Auditing.

Key Requirements of the International Auditing Standards

- 3) The key elements that are required to be covered by members in relation to the International Auditing Standard (*UK&I*) (IAS) are noted below:
- 4) Under ISA 240 the Council's appointed external auditors (in the case of Sheffield City Council KPMG LLP) are required to understand how those charged with governance exercise oversight of management processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. Explicit to this is gaining confirmation of the following:-
 - (i) how the Audit Committee oversees management processes to identify and respond to such risks (both counter-fraud arrangements, and more general oversight of internal control arrangements), and
 - (ii) whether they have knowledge of any actual, suspected or alleged frauds affecting the Council.
- 5) ISA 250 requires that external auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.
- 6) 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 is required.

Areas Covered in the Report

- 7) 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. This is a consolidation report of items that have been presented to the Audit Committee throughout 2015/16, and covers the : -
- Annual Accounts (2014/15)
 - System of Internal Control
 - Governance Arrangements
 - Counter Fraud Arrangements
 - Risk Management
- 8) The Audit Committee comprises six elected members drawn from the parties on a politically balanced basis. The committee is chaired by Councillor Steve Jones. The constitution of the group is strengthened by the inclusion of two independent non-voting Members; Rick Plews and Liz Stanley. 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. Officers of the Council and KPMG also attend the committee to present reports and to answer questions raised.

Annual Accounts

- 9) Those charged with governance (the Audit Committee) are required to approve the financial statements. In order to do this effectively, the Audit Committee obtains the necessary assurances to discharge this responsibility via a number of submissions/reports.
- 10) In July, the Interim Director of Finance reported upon the arrangements for the production of the 2014/15 annual accounts and provided members of the Audit Committee with a summary of the Statement of Accounts. An explanation of the core statements and a number of the key notes to the accounts was provided. External audit expressed satisfaction with the arrangements.
- 11) The Interim Director of Finance presented the audited annual accounts at the September 2015 meeting for sign off. The Audit Committee reviewed the accounts and questioned the officers on items contained therein.

Where additional information was requested, this was provided to the committee promptly in a suitable form for discussion.

- 12) The external auditors presented a report of the findings from their audit of the accounts to the September 2015 Audit Committee prior to the accounts being finalised. The ISA 260 report outlined the work undertaken on the 2014/15 accounts to support KPMG's conclusions. To help meet the responsibilities of those charged with governance, the report outlined any material misstatements identified by external audit, which have been corrected. KPMG's report identified one material misstatement which was presentational in nature relating to the disclosure of PFI infrastructure assets in Note 14. The note has since been amended. In addition, a small number of presentational adjustments were required to ensure that the accounts are compliant with the *Code of Practice on Local Council Accounting in the United Kingdom 2014/15* ('the Code'). The Council addressed these where significant.
- 13) The accounts for 2014/15 were given an unqualified opinion by the External Auditor and were closed within the required timescales.

System of Internal Control

- 14) The Leader of Sheffield City Council signed off the Code of Corporate Governance. The Code of Corporate Governance sets out why good governance is important, explains how SCC defines this, and explains how it will make sure that it takes place.
- 15) 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, 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 for the production of the statement. They also confirm that they are managing the risks pertaining to their service.
- 16) The 2014/15 Annual Governance Statement (AGS) was presented to the Audit Committee in July 2015 following sign off by the Chief Executive and Council Leader. No significant control weaknesses were identified through the annual governance process. 6 governance issues were identified where work continues to improve the governance controls.
- 17) Internal Audit planning arrangements are designed to cover the significant risks of the Council and the plans are endorsed by the Audit Committee. The plan for 2015/16 was presented to the committee in April, along with a report describing the process for compiling the plan. The new plan for 2016/17 is on the same agenda as this report.

- 18) All reports containing a “high opinion” are submitted to committee members in full. Members can then forward any questions to the Senior Finance Manager, Internal Audit and responses are circulated to all.
- 19) Bi-annual update reports are provided to the Committee to outline progress on the implementation of recommendations contained within the high opinion reports. The tracker report is used to monitor all recommendations until they are satisfactorily implemented. 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.
- 20) In September 2015, senior managers responsible for the Markets Service presented an update report on progress implementing outstanding audit recommendations. Managers responded directly to questions posed by members.
- 21) The Committee was also provided with the required updates on issues that emerged during 2012/13 and 2013/14. These reports included an updates on the Adult Social Care (ASC) Change Programme and the KPMG report on ASC.
- 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 (as appropriate) to answer any questions that members may wish to raise.
- 25) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement (AGS). The 2014/15 AGS highlighted no significant control weaknesses. A similar process will be followed for 2015/16.
- 26) The Senior Finance Manager (Internal Audit) presented her independent annual report to the September meeting of the Audit Committee, which supported the Council’s Annual Governance Statement. The report gave details of the audit coverage and outlined how overall the response to recommendations made by Internal Audit was positive, with the majority being accepted by management.

- 27) The Senior Finance Manager for Internal Audit now reports directly to the Interim Director of Finance and attends the senior management team meetings. This process is working well and should allay some of the concerns previously raised by members regarding the reporting arrangements for Internal Audit. Although no issues were noted with the previous arrangements, this visually strengthens the independence of Internal Audit.
- 28) The Senior Finance Manager for Internal Audit still retains the independent access rights to the Chief Executive of the Council, as described previously. This has worked well in the year.

Counter Fraud Arrangements

- 29) Counter fraud resources are allocated in the annual Internal Audit plan as presented to the Audit Committee.
- 30) Internal Audit conducted four pro-active counter fraud exercises in 2014/15. 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.
- 31) A "Protecting the Public Purse" report was presented to the Audit Committee in April 2015, which summarised the national fraud activity identified by the Audit Commission survey, the number of investigations within the authority in 2013/14 and highlighted actions taken to mitigate potential fraud in order to give assurance to the Audit Committee.
- 32) As a result of the closure of the Audit Commission the Protecting the Public Purse report is no longer produced, however a report is on the agenda for today which summarises the reactive and pro-active fraud activity undertaken by Internal Audit in 2014/15.
- 33) The Chief Audit Executive's annual report contained a summary of counter fraud activity during 2014/15.
- 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) The National Fraud Initiative (NFI) for 2014/15 is now all but complete. The required data sets were submitted in 2014, this resulted in a significant number of data matches which were received in early 2015. The matches were distributed to the relevant sections across the Council and Capita who are responsible for checking these matches, taking the appropriate actions (recovery and sanctions) and for recording the

outcomes onto the central NFI database. There are a number of different categories of matches dependent upon the strength of the data. The Council concentrates effort in those areas where the most significant results are found.

- 37) Internal audit have provided support where required and have monitored and followed up actions until the cases were closed. At the end of March 2015 only a small number of cases remain to be resolved. Internal audit have checked the outcome and provide the required declaration that the exercise has been undertaken appropriately.
- 38) The Cabinet Office has taken responsibility for this exercise going forward and has initiated contact for the data sets to be provided later this year. There is now the facility to request additional matching exercises where this is appropriate. This facility will be taken up where appropriate.
- 39) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed.
- 40) The Department for Works and Pensions (DWP) have formed a National Single Fraud Investigation Service (NFIS) and, as from the 1st of February 2015, all fraud investigations relating to housing benefits are undertaken directly by DWP. The investigators employed by Capita who undertook this service for the Council have now transferred to DWP. This has reduced the Council's resources in this area as the number of accredited fraud investigators employed by the Council has significantly reduced. The finance service has funded the specialist counter-fraud training of an officer in Internal Audit to strengthen its approach to fraud investigation.
- 41) Although considerable progress has been made in implementing fraud awareness across the Council and the policies that underpin this, much of the fraud investigation work is undertaken by management supported by Internal Audit and HR. A review of fraud investigation practices across the Council is currently being undertaken as part of this year's audit plan.

Risk Management

- 42) The Council's Corporate Risk Manager attended the committee in April and November 2015 to present to members reports on the current risk management reporting arrangements within the Council and measures being implemented to further strengthen and improve those arrangements. Both reports included the risk trend analysis as well as the current and emerging risk to delivery of the Council's strategic objectives and the controls in place to manage those risks. Audit Committee members are given the opportunity to question any issues raised.
- 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 managers review the risks identified and

offer support and challenge to services on their identified risks. Reporting of risk is now fully integrated with the reporting of service delivery and financial issues.

- 44) 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 as part of the progress reports submitted to members.

Recommendation

- 45) 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.
- 46) Members are also asked to confirm that they now have an appropriate overview of the Council's systems of internal control so that they are assured that they are fulfilling the requirements of "those charged with governance" under the International Auditing Standards.

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Audit Committee Report

Report of: Director of Legal and Governance

Date: 14 April 2016

Subject: Revised Terms of Reference

Author of Report: Dave Ross, Democratic Services (0114 273 5033)

Summary:

Following the request at the last meeting of this Committee, the report includes a number of proposed revisions to the Committee's Terms of Reference

Recommendations:

That the Committee:-

- (a) Considers the proposed revisions to the Terms of Reference appended to the report and agrees any changes ; and
 - (b) Requests the Director of Legal and Governance to make the necessary changes to the Council's Constitution.
-

Background Papers:

Category of Report: OPEN

Statutory and Council Policy Checklist

Financial Implications
NO Cleared by:
Legal Implications
No Cleared by: Gillian Duckworth
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
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council?
YES
Press release
NO

REVISED TERMS OF REFERENCE

1.0 INTRODUCTION

- 1.1 The last meeting of this Committee on 14 January 2016 requested a report reviewing the Committee's Terms of Reference.

2.0 BACKGROUND

- 2.1 The Terms of Reference were approved by Full Council in April 2007. They were reviewed in April 2010 as part of a wider review of the Committee's arrangements and this included a revision at paragraph 2 relating to the Annual Letter from the Auditor. There was a further minor revision at paragraph 3 to reflect a change to the Chief Internal Auditor's title in February 2012.

3.0 PROPOSED REVISIONS

- 3.1 In reviewing the Terms of Reference, comments and suggested revisions were received from the Interim Director of Finance and a Co-opted member of the Committee and these have been incorporated into the revised Terms of Reference appended to the report.
- 3.2 Members of the Committee are asked to consider the proposed revisions and whether any additional amendments should be included.
- 3.3 Any changes to the Terms of Reference would require approval at Full Council as they are included in the Constitution.

4.0 RECOMMENDATIONS

- 4.1 That the Committee:-
- (a) Considers the proposed revisions to the Terms of Reference appended to the report and agrees any changes ; and
 - (b) Requests the Director of Legal and Governance to make the necessary changes to the Council's Constitution.

Gillian Duckworth
Director of Legal and Governance

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APPENDIX – PROPOSED REVISIONS

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 External 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 Public Sector Audit Appointments ~~the Audit Commission~~ or any relevant organisation over the appointment of the Council's external auditor and to decide upon the appointment process for the external auditor and to participate in the process, as and when required.

Comment [RD(1): Should this refer to implementation generally?

Comment [RD(2): Change to consider? How can we ensure vfm?

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 and consider compliance with other published standards and controls.

~~(13) To consider the Council's arrangements for corporate governance and any necessary actions to ensure compliance with best practice.~~

~~(14) To consider the Council's compliance with its own and other published standards and controls.~~

Accounts

~~(15)~~(14) 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.



Audit Committee Report

Report of: Director of Legal and Governance

Date: 14 April 2016

Subject: Work Programme 2016/17

Author of Report: Dave Ross, Democratic Services (0114 273 5033)

Summary:

The report provides details of an outline work programme for the Committee

Recommendations:

That the Committee:-

(a) considers the Work Programme and identifies any further items for inclusion;
and

(b) approves the work programme.

Background Papers: None

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 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 2016/17 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 2016/17 is attached and Members are asked to identify any further items for inclusion. Provisional meetings dates for 2016/17 are being arranged.

3. Recommendation

- 3.1 That the Committee:-
- (a) considers the Work Programme and identifies any further items for inclusion;
and
 - (b) approves the work programme.

**Gillian Duckworth
Director of Legal and Governance**

Date	Item	Author
14 July 2016	Update on Strategic Outcome Planning	John Mothersole (Chief Executive)
	Strategic Risk Management	Richard Garrad (Corporate Risk Manager)
	Summary of the Statement of Accounts	Dave Phillips (Interim Director of Finance)
	Arrangements for the Appointment of the External Auditor	Dave Phillips (Interim Director of Finance)
	Annual Governance Statement	Gillian Duckworth (Director of Legal and Governance)
	Audit Committee Annual Report	Dave Ross (Legal and Governance)
	Progress on Reports with a High Opinion	Kayleigh Inman (Senior Finance Manager)
September 2016	Report to Those Charged with Governance (ISA 260)	Tim Cutler/Alison Ormston (KPMG)
	Statement of Accounts	Dave Phillips (Interim Director of Finance)
	Internal Audit Annual Report	Dave Phillips (Interim Director of Finance)
November 2016	Annual Audit Letter 2015/16	Tim Cutler/Alison Ormston (KPMG)
December 2016	(Additional meeting if required)	
January 2017	Progress on Reports with a High Opinion	Kayleigh Inman (Senior Finance Manager)
February 2017	(Additional meeting if required)	
March 2017	(Additional meeting if required)	
April 2017	Internal Audit Plan 2017/18	Kayleigh Inman (Senior Finance Manager)
	International Auditing Standards – Compliance with Internal Control/Counter Fraud	Dave Phillips (Interim Director of Finance)
	Certification of Claims and Returns Annual Report 2015/16	Tim Cutler/Alison Ormston (KPMG)

	External Audit Plan 2016/17	Tim Cutler/Alison Ormston (KPMG)
	Annual Audit Fee Letter 2017/18	Tim Cutler/Alison Ormston (KPMG)
July 2017	Summary of the Statement of Accounts	Dave Phillips (Interim Director of Finance)
	Annual Governance Statement	Gillian Duckworth (Director of Legal and Governance)
	Audit Committee Annual report	Dave Ross (Legal and Governance)
	Progress on Reports with a High Opinion	Kayleigh Inman (Senior Finance Manager)

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