

SHEFFIELD CITY COUNCIL

Audit and Standards Committee

Meeting held 15 September 2016

PRESENT: Councillors Dianne Hurst, Alan Law, Pat Midgley, Josie Paszek, Vickie Priestley and Paul Scriven

Representatives of KPMG:

Trevor Rees (Director)
Alison Ormston (Senior Manager)

Officers in attendance:

Eugene Walker (Interim Executive Director, Resources)
Gillian Duckworth (Director of Legal and Governance)
Dave Phillips (Interim Head of Finance)
Mike Thomas (Interim Assistant Director of Strategic Finance)
Kayleigh Inman (Senior Finance Manager, Internal Audit)
Clair Sharratt (Acting Senior Finance Manager, Strategic Finance)
Ruth Matheson (Assistant Finance Manager, Strategic Finance)
Paul Robinson (Principal Committee Secretary)

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1. APPOINTMENT OF CHAIR AND DEPUTY CHAIR

- 1.1 RESOLVED: That (a) Councillor Josie Paszek be appointed Chair of the Committee for the Municipal Year 2016/17; and

(b) the appointment of a Deputy Chair be made at the next meeting of the Committee.

2. APOLOGIES FOR ABSENCE

- 2.1 An apology for absence was received from Liz Stanley (Co-opted Independent Member).

3. EXCLUSION OF THE PRESS AND PUBLIC

- 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 Councillor Pat Midgley declared a personal interest in agenda item 8 (2015/16 Statement of Accounts and the External Auditor's Report to Those Charged With Governance – ISA 260) as a Council-appointed Director of the Manor and Castle Development Trust.
- 4.2 In relation to agenda item 7 (Changes to the Arrangements for the Appointment of External Auditors), (a) Dave Phillips (Interim Head of Finance) declared an

interest in the item, as a former employee of KPMG and (b) it was agreed that Trevor Rees and Alison Ormston, KPMG, would leave the meeting for the consideration of that item, due to their conflict of interest.

5. MINUTES OF PREVIOUS MEETING

- 5.1 The minutes of the meeting of the former Audit Committee held on 14 July 2016 were approved as a correct record.
- 5.2 In response to a query raised by a member of the Committee on paragraph (c) of the resolution in item 7 of the minutes (Progress on High Opinion Audit Reports), the Senior Audit Manager indicated that she was liaising with relevant officers on the development of an approach for dealing with cumulative slippage on the implementation of high opinion audit recommendations, and a report in that regard would be submitted in the near future to the Council's Executive Management Team.
- 5.3 RESOLVED: That a report be submitted to the next meeting of the Committee outlining Internal Audit's processes for tracking implementation of high opinion audit recommendations, including reported slippage.

6. CHANGES TO THE ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS

- 6.1 The Interim Executive Director, Resources submitted a report (a) summarising the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits and (b) setting out, and commenting upon the associated advantages/benefits and disadvantages/risks of, the three broad options available to the Council with regard to the appointment of its External Auditors from April 2018, which were to make a stand-alone appointment, or set up a joint auditor panel/local joint procurement arrangements, or opt-in to a sector-led body.
- 6.2 The Committee was asked to consider the options available, with a view to making a recommendation on the preferred approach to the full Council.
- 6.3 Following questions and comments from Members of the Committee, including some communicated by the Chair on behalf of Liz Stanley, it was:-
- 6.4 RESOLVED: That (i) the contents of the report now submitted be noted;
- (ii) the Council should retain its interest in the option to opt-in to a sector-led body, but officers be requested to further explore and assess the costs associated with the options of a stand-alone appointment and local joint procurement arrangements, including conducting some "soft market testing" with some audit companies; and
- (iii) a further report on this matter be submitted to the next meeting of this Committee.

(NOTE: Trevor Rees and Alison Ormston, KPMG, were not present whilst the Committee discussed the above item and made its decision, but on returning to the meeting, Trevor Rees provided his views on the matter, after being invited to do so by the Committee.)

7. 2015/16 STATEMENT OF ACCOUNTS AND THE EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260)

- 7.1 The Committee considered a report of the Interim Executive Director, Resources that communicated any relevant matters arising from the external audit of the 2015/16 Statement of Accounts. Appended to the report were the Statement of Accounts and the External Auditor's Report to those Charged with Governance (ISA 260).
- 7.2 Clair Sharratt (Acting Senior Finance Manager, Strategic Finance) presented the report and highlighted that the External Auditors intended to issue an unqualified audit opinion on the accounts and an unqualified value for money conclusion. A number of minor misstatements and presentational errors had been identified by officers, and others had been identified as a result of the external audit of the accounts, and the necessary amendments had been made to the Statement of Accounts and agreed with the External Auditors. There was also one error identified relating to a National Non-Domestic Rate debtor balance, and this has since been corrected for in the final Statement of Accounts.
- 7.3 The Acting Senior Finance Manager (Strategic Finance) also referred to one other material change since the draft version of the accounts had been produced, which concerned an adjustment required to reclassify the bond repayments for the Major Sporting Facilities.
- 7.4 Trevor Rees (KPMG) introduced the external audit of the accounts and thanked Clair Sharratt and the Finance Team for their hard work and co-operation. Alison Ormston then outlined the headline messages for the Council, as set out in section 2 of the KPMG report, the financial statements in relation to two significant risk areas and two other areas of focus, as set out in section 3, and the value for money conclusion set out in section 4. In particular, she commented on the six specific risk areas identified by KPMG, their recommendations and the management response, as set out in Appendix 1 of the report. She also drew attention to the additional audit fee that had been agreed with the Council, detailed in Appendix 3.
- 7.5 Officers and the representatives from KPMG responded to questions from Members of the Committee, including some communicated by the Chair on behalf of Liz Stanley, as follows:-
- The request for the Committee to receive a report on the governance arrangements for the Council's ICT systems would be facilitated as part of the standard arrangements for reporting back to the Committee on the progress on implementing recommendations made by the External Auditor.

- An explanation was provided for the increase in Reserves balances during 2015/16, where a repayment was made to Reserves for a prepayment that had been made in a prior year for the pension deficit, and the change in treatment for the major sporting facilities (MSF) assets, which released revenue funds, subsequently credited to reserves.
- On the issue of impairment of doubtful debts, it was reported that collection rates continued to improve and the actions being taken to reduce the level of sundry debts were outlined to the Committee.
- The composition of the Council's surplus assets and the arrangements in place for disposing of those assets, was outlined to the Committee, and it was reported that the current valuation of £97m was a reduction from £121m in 2014/15.
- On the issue of reconciliation of housing benefits transactions to the source data from the Academy Housing Benefits system, it was confirmed that appropriate reconciliation work had now been undertaken and future transaction arrangements would include submission of source data to support the monthly reconciliations. In terms of the potential for this to occur in other service areas and ensuring the lessons learned are shared corporately, it was reported that officers had recently agreed to reinstate a central control team, which would address these issues.
- The recommendation relating to the long term debtor valuation for the major sporting facilities (MSF) had been made purely to acknowledge that although a valuation had been undertaken, this matter was of a specialist nature and thus it was recommended that a full specialist valuation of the related MSF assets should be undertaken in the 2016/17 period and also as required in the future.
- As regards the concerns highlighted in relation to IT system assurance, it was recommended that in view of the number of systems and operating models in place, improved oversight and awareness of decision making was required, hence the recommendation to develop an IT assurance framework.

7.6 RESOLVED: That the Committee:-

- (a) accepts the Report to Those Charged with Governance (ISA 260) 2015/16;
- (b) approves the Statement of Accounts for 2015/16;
- (c) authorises the Chair of the Committee to sign (i) the Letter of Management Representations in order to conclude the audit and (ii) the Statement of Accounts; and
- (d) thanks Clair Sharratt and her Finance Team for their work on the Statement of Accounts and Trevor Rees, Alison Ormston and the Audit Team at KPMG for their work on the ISA 260 report.

8. INTERNAL AUDIT ANNUAL REPORT 2015/16

8.1 Kayleigh Inman (Senior Finance Manager, Internal Audit) submitted the Internal Audit Annual Report 2015/16 that highlighted the work that had been undertaken by Internal Audit during the year and which supported the Council's Annual Governance Statement (AGS). Appended to the report were (a) the Internal Audit Quality Assurance and Improvement Programme, (b) the Internal Audit Charter, (c) the Internal Audit structure, (d) the Internal Audit Post Audit Questionnaire and (e) a summary of the key actions arising from the medium-high opinion audit reports, as requested by the former Audit Committee following its consideration of the 2014/15 Annual Report.

8.2 In particular, the Senior Finance Manager (i) commented that there had been 13 audits carried out in 2015/16 that were assigned an audit opinion of high risk of failing to deliver objectives, and details of each of these had been reported to the former Audit Committee, (ii) confirmed that progress on the implementation of recommendations made on audits assigned a high and medium-high opinion, was monitored by Internal Audit and (iii) stated that, from the work undertaken by Internal Audit during that year, she was satisfied that the Council's core systems include control arrangements which are adequate to allow the Council to conduct its business appropriately.

8.3 In response to questions from Members of the Committee, including some communicated by the Chair on behalf of Liz Stanley, the Interim Executive Director, Resources and the Senior Finance Manager (Internal Audit) indicated that:-

- The strategy for Internal Audit work is to focus on areas of high-risk activity and part of the process for compiling Internal Audit's annual work plan included consulting with the Council's Executive Management Team to identify the high-risk areas.
- Should Internal Audit encounter difficulties in securing the necessary engagement or co-operation from individual officers whilst undertaking its work, then this would be addressed via reporting the matter up through the appropriate management hierarchy.
- Despite the reductions in staffing resources in Internal Audit, the Interim Executive Director, Resources remained satisfied that the Council's audit controls remained robust, although he would continue to monitor this position.

8.4 **RESOLVED:** That:-

(A) the contents of the report now submitted on the work undertaken by Internal Audit during 2015/16, and the opinion of the Chief Audit Executive (Senior Finance Manager) in relation to the adequacy of the Council's system of internal control, as set out in paragraphs 57 to 59 of the report, be noted;

(B) the Internal Audit Charter for 2016/17, at Appendix A of the report, be approved; and

(C) the level of detail contained in the report in relation to audits assigned a medium-high opinion, be welcomed.

9. UPDATE ON STANDARDS COMPLAINTS

- 9.1 The Director of Legal and Governance introduced a report providing a summary of the outcome of the complaints considered under the Procedure for Dealing with Standards Complaints regarding City, Parish and Town Councillors and Co-opted Members that was adopted by Full Council at its meeting on 25 March 2015.
- 9.2 The Director rehearsed the requirements, under the Localism Act 2011, for local authorities to promote high standards of Member conduct, adopt a Code of Conduct, and put in place a process for investigating complaints. She outlined the Council's Procedure for Dealing with Standards Complaints, highlighting the three courses of action that were available following initial assessment of the complaint by herself in consultation with one of the Independent Persons, and which were to take no action, take other action through informal resolution, or refer the matter for investigation.
- 9.3 The Director highlighted the fact that 18 complaints had been considered under the current Procedure and the outcomes were to take no action on 13 complaints, not accept 2 complaints due to a significant amount of time having passed since the alleged incidents took place, and the remaining 3 complaints were resolved through informal resolution. One further complaint would be assessed shortly.
- 9.4 The Director commented that this relatively low number of complaints and high proportion of outcomes where no action was taken, was evidence that high standards of conduct existed in Sheffield, but that efforts to maintain those standards would continue, including through the provision of advice, and training and development activities.
- 9.5 In response to questions from Members of the Committee, the Director reported that (a) she had attended a couple of Parish/Town Council meetings to provide training on the Members' Code of Conduct and the Standards Complaints Procedure, and intended to further develop the relationships with all three of the City's Parish and Town Councils in relation to Member conduct and (b) in terms of ascertaining the degree to which complainants were satisfied with the complaints procedure, actions to be taken under the informal resolution outcome required the consent of the complainant, and all complainants are informed of decisions to take no action and no complainant had responded by raising an objection with the Director.
- 9.6 **RESOLVED:** That the contents of the report now submitted, and the information now reported, be noted.

10. WORK PROGRAMME

- 10.1 The Director of Legal and Governance (a) submitted a report providing details of an outline work programme for the Committee to July 2017 and (b) suggested that (i) the Standards Committee Annual Report, scheduled for the meeting in November 2016, be rescheduled for the meeting in January 2017, to link with the other Standards-related items already scheduled for that meeting and (ii) in view of the current level of complaints activity, the frequency for receiving update reports on Standards Complaints be reduced to twice per year, in January and July each year.
- 10.2 With reference to the report on the implications for Sheffield of the vote to leave the European Union, which was provisionally scheduled for the November meeting, Alison Ormston (KPMG) commented that KPMG had produced several podcasts on the implications of “Brexit” and she would be happy to provide access to the podcasts for any interested Member or officer.
- 10.3 RESOLVED: That the information now reported be noted, and the work programme now submitted be approved with the changes now suggested relating to the scheduling of the Standards Committee Annual Report and Standards Complaints Updates.

11. DATES OF FUTURE MEETINGS

- 11.1 It was noted that meetings of the Committee would be held at 5.00 p.m. on:-
- 16 November 2016
 - 8 December 2016 (additional meeting if required)
 - 12 January 2017
 - 16 February 2017 (additional meeting if required)
 - 9 March 2017 (additional meeting if required)
 - 27 April 2017
 - 13 July 2017