

AUDIT COMMITTEE

ANNUAL REPORT 2013/14

To be considered at the Council Meeting on 1 October 2014



FOREWORD

I am delighted to present this report to Council on the work of the Audit Committee in 2013/14 which demonstrates how the Committee has contributed to ensuring that the Council has an effective governance framework and internal controls.

Over the seven meetings there has been a range of items of business with some challenging issues to consider.

We approved the Statement of Accounts and accepted the External Auditor's report on his audit of the accounts. I am pleased that the External Auditor issued an unqualified value for money conclusion and an unqualified opinion on the financial statements in September 2013.

One of the key issues for the Committee during the year has been the impact of the over spend in the Communities Portfolio in 2013/14 and this was highlighted in a number of the reports we have received. We considered in detail the Internal Audit report on the Adult Social Care Management Review in July 2014 and the actions and initiatives that are taking place to address the findings and recommendations of the Review. We will be monitoring progress in the coming year and will also be receiving a report on a wider systems review.

The Committee has been updated on the issues relating to the closure of the Digital Region project and we will be receiving the independent review report in 2014.

Members have been kept informed of progress in obtaining a settlement with the three South Yorkshire local authorities in respect of the former South Yorkshire Trading Standards Unit which is nearing conclusion.

An area of concern has been the backlog of pension queries and we heard from Capita that this was close to being cleared by the Pensions Authority. We were assured that the backlog related to pension queries and not errors and had not affected individual employees and their pension entitlement.

We continued to monitor the implementation of recommendations from Internal Audit reports with a high opinion. Where we have had concerns about a lack of progress we have held officers to account as we did in relation to the audits of Self Directed Support (Direct Payments) and Marketing Sheffield, both of which were subsequently removed from the action tracker.

Our External Auditor, John Prentice, moved to KPMG's Leeds Office during the year. I would like to express my thanks to John for the excellent service he provided over his 5 years as our External Auditor. I would also like to welcome back Sue Sunderland who replaced him as Director earlier this year.

Our two Independent Members have proved to be a worthwhile addition to the Committee. I would like to thank Beryl Seaman, who left in December, for her excellent contribution to the work of the Committee. Following a recruitment process, Liz Stanley joined Rick Plews on the Committee in January.

The effective operation of the Committee relies on the contribution of its members and I consider that the cooperative working that exists is one of our strengths. I

would like to thank the members for their hard work and patience during the year and particularly Councillor Joe Otten as Deputy Chair.

The Committee also benefits from having excellent officer support and I would particularly like to thank those officers that regularly attend meetings and support the Deputy Chair and myself. This is appreciated as we have dealt with some challenging issues during the year.

Finally, there are no issues or areas of concern I wish to draw to the attention of Council and I recommend that Council receives this report on the work of the Audit Committee in 2013/14.



Councillor Ray Satur, Chair of the Audit Committee 2013/14

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1. INTRODUCTION

- 1.1 This is the seventh year of the Audit Committee and this Report highlights the work of the Committee in the 2013/14 and covers the period from July 2013 to July 2014.

2. COMMITTEE INFORMATION

- 2.1 There were seven meetings of the Committee during the year. The membership comprises six councillors and two independent non-voting co-opted members. and the members were:-

- Councillor Ray Satur (Chair)
- Councillor Joe Otten (Deputy Chair)
- Councillor Helen-Mirfin Boukouris (to September 2013/from June 2014)
- Councillor Anders Hanson (to May 2014)
- Councillor Steve Jones (to June 2014)
- Councillor Martin Lawton (to May 2014)
- Councillor Sioned-Mair Richards (from September 2013)
- Councillor John Campbell (from June 2014)
- Councillor Rob Frost (from June 2014)
- Rick Plews - Independent non-voting co-opted member
- Beryl Seaman - Independent non-voting co-opted member (to 31 December 2013)
- Liz Stanley - Independent non-voting co-opted member (from 1 January 2014)

3. OFFICER SUPPORT

- 3.1 The Committee continued to be well supported by the Council's Executive Management Team, senior management and officers in Finance, Internal Audit, Legal and Governance and other Portfolios.
- 3.2 There is also close working with the Director and Senior Audit Manager at KPMG, the Council's External Auditor. In line with KPMG's five year rotation policy, John Prentice was replaced as Director by Sue Sunderland in 2014.

4. WORK PROGRAMME

- 4.1 The work programme is based around the Committee's Terms of Reference and items requested during the year. This is discussed with the Chair and Deputy Chair of the Committee and officers and is reviewed at each Committee meeting.
- 4.2 The Committee's terms of reference and a list of the items that have been considered are attached as appendices to the report.

5. INTERNAL AUDIT ACTIVITY

5.1 Internal Audit Annual Report 2013

- 5.1.1 The Annual Report highlighted the role of Internal Audit and the work undertaken during 2012/13 and supported the Council's Annual Governance Statement. It also provided an executive summary of audit opinion and information on the

planning process, audit reporting and service reviews.

5.1.2 The Committee noted that the Chief Audit Executive (Senior Finance Manager) was satisfied that the core systems included control arrangements that were currently adequate to allow the Council to conduct its business appropriately. The revised Internal Audit Charter was approved, as required by the Public Sector Internal Audit Standards.

5.1.3 It was agreed that at the request of the Committee or the External Auditor, a private meeting would be held before each meeting of the Committee with the External Auditor and Internal Audit to discuss any issues of concern. No such meetings were held during the year. There would also be a private meeting between the Committee and the External Auditor at least once a year and this is to be arranged.

5.2 **Review of the Operation of the New Internal Audit Structure**

5.2.1 The Committee was updated on the how the new management arrangements for Internal Audit that were implemented in April 2013 were operating in practice and how they fulfilled the requirements of the Public Sector Internal Audit Standards.

5.3 **Internal Audit Plan 2014/15**

5.3.1 The Internal Audit Plan and Strategy for 2014/15 summarised a risk based programme of work and demonstrated that the Council had made provision to discharge its statutory responsibilities. The format of the Plan had been amended to provide additional information on the scope of the audit reviews. Reference was made to the significant increase in the volume of unplanned work requested from Internal Audit in 2013/14. The Committee endorsed the programme of audit work for 2014/15.

5.4 **Progress on Compliance with the Public Sector Internal Audit Standards**

5.4.1 The aim of the Public Sector Internal Auditing Standards was to promote further improvements in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The Committee endorsed the progress made to ensure compliance with the Standards whilst noting the additional work still required.

5.5 **Progress on High Opinion Audit Reports**

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

5.5.2 The following audit reports with a high opinion were issued during the year:-

- Projects - Risk Management and Reporting
- Freedom of Information Arrangements
- Urban Traffic Control
- School Appointments, Terminations and Amendments to Pay
- Delivery of Highways Schemes
- Schools Using Independent Payroll Services

- Subject Access Requests
- Adoption Service
- CareFirst Application Review (Financial Elements)
- Integration of Short Term Intervention Team and Community Intermediate Care Services

5.5.3 The Committee continued to monitor and robustly challenge progress made against the recommendations from the Audit Reports with a High Opinion. Ten audits were subsequently removed from the action tracker due to satisfactory implementation of the recommendations/actions by the service. However, where there were concerns about a lack of progress, officers were requested to attend the Committee.

5.5.4 Officers from the Social Care Service attended a meeting to provide assurance regarding implementation of the actions for the audit of Self-Directed Support (Direct Payments). An Internal Audit follow-up review was requested by the Committee and this was reported to the Committee in April 2014. This audit was subsequently removed from the action tracker in July 2014.

5.5.5 Arising from the concerns of the Committee last year, a report was requested on the recommendations and actions that had not been implemented from the Internal Audit report on Marketing Sheffield. In July 2013, the Executive Director, Place submitted a report on the conclusions from an investigation into the over spend on the MADE Festival held in 2011. The situation did not recur in 2012 and a new way of procuring a partner for the event was in place for the 2013 event.

5.5.6 Internal Audit also provided an update on the five outstanding recommendations from the Audit Report on Marketing Sheffield. The Committee requested Internal Audit to undertake a light touch review of Marketing Sheffield over the next 18 months to ensure that the actions were being delivered. The audit was removed from the action tracker in November 2013.

6. **ACCOUNTS**

6.1 The Committee considered:

- Summary of the Statement of Accounts
- Statement of Accounts 2012/13
- External Auditor's Report to Those Charged with Governance (ISA 260)
- Annual Audit Letter 2012/13

6.2 A summary of the 2012/13 Statement of Accounts was considered in July 2013 and explained the core statements and a number of the key notes to the accounts. A training workshop for members of the Committee was held prior to consideration of the Statement of Accounts and External Auditor's report in September 2013.

6.3 The External Auditor's 'Report to Those Charged with Governance' (ISA 260) summarised the key issues identified during the audit of the Council's financial statements for the year ended 31 March 2013 and his assessment of the Council's arrangements to secure value for money in its use of resources. The report also outlined the proposed audit opinion and audit differences, the key risks affecting the financial statements (these included the Council's savings plans,

Digital Region Limited and the Highways Private Finance Initiative), specific value for money risks, the key issues and recommendations from the audit relating to Digital Region and the follow-up of the recommendations from the 2011/12 audit.

- 6.4 The Committee accepted the External Auditor's Report (ISA 260) and approved the Statement of Accounts for 2012/13. The External Auditor issued an unqualified value for money conclusion and an unqualified opinion on the financial statements on 27 September 2013.
- 6.5 A number of reports were also requested on the closure and independent review of Digital Region, the settlement in relation to the former South Yorkshire Trading Standards Unit and the Internal Audit Management Review Report on Adult Social Care. These are covered in Section 9 on Follow-up Reports.
- 6.6 The External Auditor's Annual Audit Letter 2012/13 was submitted in November and summarised the findings from the audit of the Council's financial statements and value for money conclusion for 2012/13. As there had been two objections to the Council's 2011/12 financial statements, the External Auditor subsequently issued a certificate to close the 2012/13 audit in April 2014.

7. **EXTERNAL AUDIT**

- 7.1 The Committee considered the following reports from the Director, KPMG, the Council's External Auditor:-
- Report to those Charged with Governance (ISA 260)
 - Certification of Claims and Returns Annual Report
 - Annual Audit Letter 2012/13
 - Annual Audit Fee Letter 2013/14
 - External Audit Plan 2013/14
- 7.2 The Report to those Charged with Governance (ISA 260) and Annual Audit Letter are covered under the previous Accounts section.
- 7.3 The Committee noted a report that summarised the work on the certification of the Council's claims and returns for 2012/13 in relation to grants and subsidies the Council received from the Government and grant paying bodies. Four grants and claims had been certified with a total value of £573.7m. The report included a summary of the outcomes and the recommendations from the certification work.
- 7.4 The Committee were informed that the Audit Commission had published the final audit fee scale for external audit work and the fee would remain the same in cash terms. The grant fee had reduced to reflect reductions in claim certification work required in 2014/15.
- 7.5 The External Audit Plan 2013/14 described how KPMG would deliver the financial statements audit work for the Council and also set out the approach to value for money work. It also included an assessment of the key risks for the audit of the financial statements relating to Digital Region Ltd, the Local Government Pension Scheme triennial revaluation, property, plant and equipment and changes in associated bodies.

8. **REGULATORY FRAMEWORK AND RISK MANAGEMENT**

8.1 **Annual Governance Statement**

8.1.1 The Council is required to produce, as part of its Annual accounts, an Annual Governance Statement (AGS) that describes the governance framework and systems of internal control and this has to be signed off by the Leader, Chief Executive and Section 151 Officer. The AGS for 2012/13 was considered in July 2013 and identified two significant control weaknesses relating to Adult Social Care and Capital Project Management and set out the officer action to address those issues. The AGS for 2013/14 also included these control weaknesses with the addition of the Consistency of Corporate issues.

8.2 **Compliance With International Auditing Standards**

8.2.1 A report was received summarising how the Committee can gain assurance that the key elements of the Council's internal control systems are being reviewed and reported to the Committee, particularly in relation to the Annual accounts, the system of internal control, governance arrangements, counter fraud arrangements and risk management. This allowed the Committee to demonstrate to the External Auditors and a wider audience that it has exercised the required oversight to meet the requirements of the Standards.

8.2.2 The Committee agreed that the report gave an accurate reflection of the reports that it has received and considered throughout the year and it had an overview of the Council's systems of internal control so that it is assured that it is fulfilling the requirements of "those charged with governance" under the International Auditing Standards.

8.3 **Financial/Commercial Monitoring of External Relationships**

8.3.1 The Committee continued to receive reports providing an update on the monitoring of the financial and commercial risks of the Council's 28 major external relationships.

8.4 **Protecting The Public Purse Annual Fraud Report**

8.4.1 The Committee noted the key recommendations contained in the Audit Commission's 'Protecting the Public Purse 2013' report that provided a summary of detected fraud and identified key fraud risks affecting local government. The report also provided an update on fraud investigation activity within the Council during 2012/13 and a completed checklist for those responsible for governance.

8.4.2 The key messages from the Audit Commission's report on fraud in the public sector were:

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

8.5 **Strategic Risk Management**

8.5.1 The Corporate Risk Manager gave two presentations to the Committee during the year that assessed:-

- the Council's current Risk Management arrangements and the measures being implemented to further strengthen and improve those arrangements
- the Risk management trend analysis; and
- the current and emerging risks to delivery of the Council's strategic objectives and the controls in place to manage those risks.

8.5.2 Risk management training was planned for members of the Committee but would now take place in October 2014.

9. **FOLLOW UP REPORTS**

9.1 **South Yorkshire Digital Region**

9.1.1 In November 2013, the Committee were informed that KPMG would be undertaking a review of the Digital Region project. The first stage would examine the headline issues with the second stage focussing on specific issues. The Committee is due to receive this report in 2014.

9.1.2 The Director of Finance and the Director of Creative Sheffield submitted a report providing progress on the management response to the recommendation from the External Auditor's ISA 260 report and the Committee noted the steps being taken to manage the closure of Digital Region Limited to reduce the financial impact on the Council.

9.2 **South Yorkshire Pension Queries**

9.2.1 The Committee has been monitoring the backlog of South Yorkshire Pension queries and it was reported in last year's Annual Report that the backlog had been cleared.

9.2.2 In July 2013, the Payroll Manager (HR Solutions, Capita) provided a further update on progress to address the Council's pensions' backlog and its impact on the South Yorkshire Pensions Authority Service Level Agreement quarterly statistics. The backlog of nearly 10,000 cases was close to being cleared by the Pensions Authority and significant signs of improvement in the statistics was expected in Quarter 3 (October to December 2013). The backlog related to pension queries and not errors and had not affected individual employees and their pension entitlement.

9.2.3 In seeking an assurance going forward that there would be system improvements, the Payroll Manager referred to work that was underway with the Pensions Authority to synchronise payroll and pension records whilst simultaneously amending and improving monthly submissions.

9.2.4 At its meeting in July 2014, the Committee received a follow-up report of the Director KPMG providing an update on the timely issue of pensions' data by the

Council to the Pensions Authority. The report concluded that progress was being made but further improvements were required. The Committee would continue to monitor the position.

9.3 South Yorkshire Trading Standards Unit

9.3.1 The Committee has been kept informed of progress in obtaining a settlement with the other three South Yorkshire local authorities relating to the former South Yorkshire Trading Standards Unit.

9.4 Adult Social Care

9.4.1 The issues relating to the significant overspend in the Communities Portfolio in 2013/14 were highlighted in the Annual Governance Statement, the Statement of Accounts and the External Auditor's ISA 260 Report and Annual Audit Letter. At a special meeting in July 2014, the Committee gave detailed consideration to the Internal Audit report on the Management Review of Adult Social Care and details of the actions and initiatives that are taking place to address the findings and recommendations of the Review. A progress report would be considered in December 2014. In addition, the Committee would receive a report on a wider systems review in November 2014.

10. INDEPENDENT MEMBER RECRUITMENT

10.1 As one of the Committee's non-voting co-opted independent members stood down at the end of December 2013, a recruitment process was undertaken to fill that vacancy. The appointment of Liz Stanley was confirmed by Full Council in December 2013 and she attended her first meeting of the Committee in January 2014. An induction session was also arranged for the new member.

10.2 It was also agreed that the maximum term for the appointment of the co-opted members of the Audit Committee is increased to five years to allow for flexibility in the recruitment process but that a four year term would be the norm. This would be of assistance where a member retired during their last year.

10.3 As the term of office for one of the independent members is due to expire in May 2015, it will be necessary to consider the recruitment process for that position during the coming year.

11 TRAINING AND DEVELOPMENT

11.1 A number of internal and external training sessions/events were held during the year:-

- A briefing session was held with an external facilitator to assist members in advance of consideration of the Statement of Accounts and External Auditor's Report ((ISA 260).
- Four members of the Committee visited Capita's offices in November 2013 for a tour of their premises and to receive presentations from senior managers on the services they provide for the Council.

11.2 Two members of the Committee attended a Chartered Institute of Public Finance

and Accountancy workshop in July 2014 on 'Developing the Audit Committee'. The practical workshop was designed to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members. Feedback from the workshop was that it was interesting and useful.

- 11.3 As it had not been possible to arrange a training session on risk management this would be held in October 2014.

12. **OUTCOMES**

- 12.1 The Audit Committee aims to add value through its activity and, in particular, it has:

- Approved the Statement of Accounts.
- Accepted the Report to those Charged with Governance (ISA 260)
- Demonstrated that it has a significant overview of the Council's systems of internal control so it is assured that it is fulfilling the requirements of "those charged with governance" under the International Auditing Standards.
- Continued to monitor implementation of the recommendations and actions arising from Audit Reports with a high opinion.
- Endorsed the work taking place to ensure compliance with the Public Sector Internal Auditing Standards and approved the revised Internal Audit Charter as required by the Standards.
- Received information on the risk management arrangements.
- Endorsed the programme of Internal Audit work for 2014/15.
- Received follow-up reports where requested.

13. **THE YEAR AHEAD**

- 13.1 The Committee will continue to ensure that it maximises its contribution to an effective governance and control framework. It will work closely with the Council's senior management and Internal and External Audit and will hold service managers to account where necessary.
- 13.2 A progress report on the implementation of actions from the Management Review of Adult Social Care and a report on a systems review will be considered in 2014. The Committee is also due to receive the report from KPMG on the Review of Digital Region.
- 13.3 Training will be arranged on the Statement of Accounts and risk management.
- 13.4 A recruitment process will be undertaken in late 2014/early 2015 as the term of office expires in May 2015 for one of the Committee's independent members.

14. **RECOMMENDATION**

- 14.1 That Council receives this report on the work of the Audit Committee in 2013/14.

Councillor Ray Satur
Chair of the Audit Committee 2013/14

Appendix A - Items Considered During the Year

9 July 2013

- South Yorkshire Pensions Update
- Summary of the Statement of Accounts
- Marketing Sheffield
- Annual Governance Statement 2012/13
- Progress on High Opinion Audit Reports
- Independent Member Recruitment
- Audit Committee Annual Report
- Financial/Commercial Monitoring of External Relationships
- Work Programme

25 September 2013

- Report to those Charged with Governance (ISA 260)
- Statement of Accounts 2012/13
- Internal Audit Annual Report 2013
- Work Programme

14 November 2013

- South Yorkshire Digital Region: Progress on Management Response
- Annual Audit Letter 2012/13
- Progress on High Opinion Audit Reports
- Progress on Compliance with the Public Sector Internal Audit Standards
- Strategic Risk Management
- Work Programme

9 January 2014

- Review of the Operation of the New Internal Audit Structure
- Certification of Grant Claims and Returns
- Financial/Commercial Monitoring of External Relationships
- Work Programme

10 April 2014

- External Audit Plan 2013/14
- Annual Audit Fee Letter 2014/15
- Internal Audit Plan 2014/15
- Progress on High Opinion Audit Reports
- Protecting the Public Purse Annual Fraud Report
- Compliance with International Auditing Standards
- Strategic Risk Management
- Work Programme

3 July 2014

- Adult Social Care Management Review
- Appointment of Deputy Chair

17 July 2014

- Annual Governance Statement 2013/14
- Summary of the 2013/14 Statement of Accounts
- Progress on High Opinion Reports
- Annual Audit Fee Letter 2014/15
- Pensions Data Follow Up Report
- Work Programme

Appendix B - Audit Committee Terms Of Reference

- (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 the Annual Letter from the Auditor or the Audit Commission in accordance with the Accounts and Audit Regulations 2003 as amended and to monitor the Council's response to any issues of concern identified.

Audit Activity

- (3) To consider the Chief Internal Auditor's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- (4) To consider summaries of specific internal audit reports as requested.
- (5) To consider reports dealing with the management and performance of the internal audit service.
- (6) To consider any report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- (7) To consider specific reports as agreed with the external auditor.
- (8) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (9) To liaise with the Audit Commission over the appointment of the Council's external auditor.

Regulatory Framework and Risk Management

- (10) To maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour (except in relation to those matters which are within the Terms of Reference of the Standards Committee e.g. code of conduct and behaviour of Members).
- (11) To monitor the effective development and operation of risk management and corporate governance in the Council.
- (12) To monitor Council policies on "Raising Concerns at Work" and the anti-fraud and anti-corruption strategy and the Council's complaints process.

- (13) To oversee the production of the Council's Annual Governance Statement and monitor progress on any issues.
- (14) To consider the Council's arrangements for corporate governance and any necessary actions to ensure compliance with best practice.
- (15) To consider the Council's compliance with its own and other published standards and controls.

Accounts

- (16) To consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.