

Audit Committee

Meeting held 25 September 2014

PRESENT: Councillors Ray Satur (Chair), John Campbell, Rob Frost, Joe Otten (Deputy Chair) and Sioned-Mair Richards.

Co-opted Independent Members

Rick Plews and Liz Stanley.

Officers in attendance

John Mothersole (Chief Executive)
Eugene Walker (Interim Executive Director, Resources)
Andy Eckford (Interim Director of Finance)
Laura Pattman (Assistant Director of Finance, Business Partnering and Internal Audit)
Kayleigh Inman (Senior Finance Manager, Internal Audit)
Clair Sharratt (Finance Manager - Strategic Finance)
Sue Sunderland (Director KPMG)
David Phillips (Senior Manager KPMG)
Gillian Duckworth (Interim Director of Legal and Governance)
Dave Ross (Principal Committee Secretary)

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1. APOLOGIES FOR ABSENCE

1.1 An apology for absence was received from Councillor Helen Mirfin-Boukouris.

2. DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3. AUDIT REPORTS WITH A HIGH OPINION

3.1 The Chair of the Committee (Councillor Ray Satur) reported on the previously agreed process for dealing with Audit reports with a High Opinion (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 was high and sufficient controls were not present at the time of the audit review). This involved the final reports being circulated to members of the Committee and members having the opportunity to submit written questions for a response. Following discussions with members of the Committee, it was proposed that the process would be amended by having the reports included on the next available Audit Committee agenda. Members would also have the opportunity to ask for the relevant service officer to attend the meeting if it had not been possible to answer their questions in advance or if there were any particular concerns.

3.2 **Resolved:** That the process for the circulation and consideration of Audit reports with a High Opinion is amended as now reported and discussed.

4. MINUTES OF PREVIOUS MEETING

- 4.1 The minutes of the meeting of the Committee held on 17 July 2014 were approved as a correct record.

5. 2013/14 STATEMENT OF ACCOUNTS AND EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260)

- 5.1 The Interim Director of Finance introduced a report of the Interim Executive Director of Resources that communicated any relevant matters arising from the external audit of the 2013/14 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).
- 5.2 The Finance Manager (Strategic Finance) outlined the headlines from the Statement of Accounts, as summarised in the Foreword. In particular, she referred to savings achieved and the £415k overspend on the budget, the introduction of significant changes to local government finance and maintaining the level of reserves.
- 5.3 The Interim Director referred to the findings from the external audit which had identified an error which had not been amended in the accounts where the revaluation of a property asset had not been properly transacted. This was not considered material to the accounts and would be corrected on the 2014/15 accounts. It was intended that an unqualified audit opinion would be given by the External Auditor on the accounts in relation to internal controls and a qualified conclusion in respect of issues relating to Adult Social Care. Also no material uncertainties had been identified.
- 5.4 The Director, KPMG introduced the Report to Those Charged with Governance (ISA 260) that summarised the key findings from the audit of the Council's financial statements for 2013/14 and the work to support KPMG's conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion). She referred to the summary of the headline messages relating to the control environment, completion of the report and value for money conclusion and risk areas. The controls over the majority of the Council's key financial systems were sound but there were some weaknesses in respect of individual finance systems relating to pensions data flows and the Credit Clearing Account and a diminution of control following a review by the Council and change in the practice relating to journals. It was anticipated that an unqualified opinion would be issued in relation to the Council's financial statements by 30 September 2014. The Director also outlined the specific value for money risks in relation to the Adult Social Care overspend and this meant that there would be a qualified opinion on the value for money conclusion.
- 5.5 In response to a question on the issue of the Council having discontinued its previous practice of requiring all journals to be authorised by an officer separate to the preparer and whether this should be permitted, the Director KPMG

commented that other local authorities were making similar changes. One option could be to ask Internal Audit to undertake testing in this area as KPMG's sample testing was small. The Interim Executive Director, Resources stated that it was about moving money between accounts and the level of risk was low. The Assistant Director of Finance added that there was no planned audit for this area of work and it was not considered a high risk.

5.6 Officers responded to further questions from members of the Committee on the External Auditor's report relating to South Yorkshire Trading Standards Unit, the Credit Clearing Account and Adult Social Care.

5.7 In respect of the risk identified relating to savings plans, the Director KPMG indicated that due to the scale of the savings and the decisions that underpin those savings, it was accepted that some savings may not be achieved during the year as planned but that it was about how that would be addressed by management. The Chief Executive stated that the Council continued to deliver a balanced budget at the end of the year and he did not recall having to abandon an in year saving. However, achieving savings was becoming more difficult.

5.8 Officers also responded to questions on the Statement of Accounts relating to Corporate expenditure, how the expenditure spent outside the capital programme was managed and the Sheffield City Trust transactions.

5.9 **Resolved:** That the Committee:-

- (a) accepts the Report to Those Charged with Governance (ISA 260) 2013/14;
- (b) approves the Statement of Accounts for 2013/14;
- (c) requests the Chair of the Audit Committee to sign (i) the Letter of Management Representations in order to conclude the audit and (ii) the Statement of Accounts;
- (d) thanks Clair Sharratt and the Finance Team for their work on the Statement of Accounts; and
- (e) thanks Sue Sunderland, David Phillips and her Audit Team at KPMG for their work on the ISA 260 report.

6. INTERNAL AUDIT ANNUAL REPORT 2013/14

6.1 The Senior Finance Manager (Internal Audit) submitted a report that highlighted the work that had been undertaken by Internal Audit during the year and which supported the Council's Annual Governance Statement. The report included an executive summary of audit opinion, internal audit resources and the audit reporting process. Overall the response to recommendations made by Internal Audit was positive and the majority were accepted by management.

6.2 Officers responded to questions from members of the Committee relating to Audit Reports with a high opinion and concerns at the reduced budget for Internal Audit

and the impact this would have on the audit work. The Assistant Director of Finance commented that she would endeavour to maintain the current level of funding for the service. The Interim Executive Director, Resources indicated that the budget reduction for Internal Audit was lower than for the Finance Team and there were similar pressures across the other parts of his Portfolio. Members were faced with difficult choices and decisions.

6.3 Resolved: That the Committee:-

- (a) notes the report and the opinion of the Chief Audit Executive (Senior Finance Manager) that she is satisfied that the core systems included control arrangements which were adequate to allow the Council to conduct its business appropriately; and
- (b) whilst noting the budget reductions being faced across local government, raised concerns at the level of funding available for Internal Audit and any potential future reductions and the impact of this on delivery of the audit work.

7. EXCLUSION OF PUBLIC AND PRESS

- 7.1 Resolved:** That the public and press be excluded from the meeting before discussion takes place on the following item of business to be considered (Financial/Commercial Monitoring of External Relationships) on the grounds that, if the public and press were present during the transaction of such business, there would be a disclosure to them of exempt information as described in paragraph 3 of Schedule 12A to the Local Government Act 1972, as amended (information relating to the financial or business affairs of any particular person including the Authority holding the information).

8. FINANCIAL/COMMERCIAL MONITORING OF EXTERNAL RELATIONSHIPS

- 8.1** The Interim Director of Finance introduced a report of the Interim Executive Director, Resources that provided a bi-annual update on the risks relating to the financial and commercial monitoring of the Council's main external relationships. This was the first report that was consistent with other corporate performance monitoring and the format had therefore been changed accordingly. This has had an impact upon the previous risk status which was unrelated to any deterioration in actual partnership relations. This has been caused by the revised corporate reporting criteria for assessing risk status which was now objectively based on the relative probability and impact of the issue concerned occurring.

8.2 Resolved: That the Committee:-

- (a) notes the report now submitted; and
- (b) requests that in future it would receive the integrated risk management report that is submitted to the Executive Management Team and this should also include the risk matrix and be in a larger font size.

9. WORK PROGRAMME

9.1 The Interim Director of Legal and Governance submitted a report providing details of the Committee's outline work programme for 2014/15.

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

(a) approves the work programme for 2014/15; and

(b) would consider at its next meeting whether the December meeting of the Committee would be held if there was only the one item of business or whether that item would be deferred to the January meeting.

10. DATES OF FUTURE MEETINGS

10.1 It was noted that meetings of the Committee will be held at 6.00 p.m. on:-

- 13 November 2014
- 11 December 2014
- 8 January 2015
- 12 February 2015
- 12 March 2015
- 9 April 2015

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