



## Audit and Standards Committee Report

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**Report of:** Dave Phillips, Head of Strategic Finance

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**Date:** 22nd April 2021

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**Subject:** Compliance with International Auditing Standards

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**Author of Report:** Linda Hunter, Senior Finance Manager (Internal Audit)

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**Summary:**

This report has been drafted so that the Audit and Standards Committee can demonstrate to the External Auditors and the wider audience that they have exercised the required oversight to meet the International Standards on Auditing.

This report draws together much of the work that has been undertaken by the Audit and Standards Committee in the past year.

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**Recommendations:**

- 1) Members are asked to confirm that the report gives an accurate reflection of the reports 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.
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**Background Papers:**

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**Category of Report:** Open

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\* Delete as appropriate

## Statutory and Council Policy Checklist

<b>Financial implications</b>
<del>YES</del> /NO      Cleared by: L Hunter
<b>Legal implications</b>
<del>YES</del> /NO      Cleared by:
<b>Equality of Opportunity implications</b>
<del>YES</del> /NO      Cleared by:
<b>Tackling Health Inequalities implications</b>
<del>YES</del> /NO
<b>Human rights implications</b>
<del>YES</del> /NO
<b>Environmental and Sustainability implications</b>
<del>YES</del> /NO
<b>Economic impact</b>
<del>YES</del> /NO
<b>Community safety implications</b>
<del>YES</del> /NO
<b>Human resources implications</b>
<del>YES</del> /NO
<b>Property implications</b>
<del>YES</del> /NO
<b>Area(s) affected</b>
Corporate
<b>Relevant Scrutiny Board if decision called in</b>
<b>Is the item a matter which is reserved for approval by the City Council?</b> <del>YES</del> /NO
<b>Press release</b>
<del>YES</del> /NO

**Report to the Audit and Standards Committee**  
**Compliance with International Standards on Auditing (ISA)**

**April 2021**

**Introduction**

- 1) **International Standards on Auditing (ISA)** are professional standards for the performance of financial audits. 'Those charged with governance' oversee an organisations' systems for monitoring risk, financial control and compliance with the law. For Sheffield City Council this is the Audit and Standards Committee.
- 2) As part of the International Standards on Auditing (ISA) there is a requirement for 'those charged with governance' to demonstrate formally that they have exercised adequate oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control, together with overseeing the financial reporting process.
- 3) For the past few years, this report has been produced for the Audit and Standards Committee to enable them to demonstrate that they have taken the appropriate overview of the entire governance framework of the Council, and therefore meet the requirements of the International Standards on Auditing.
- 4) From 2018/19 the external auditor for SCC changed from KPMG to Ernst and Young (EY). The change in auditor has provided an opportunity for revisions to be made to the format of this report to reflect the requirements and specifications of the new auditors.

**Key Requirements of the International Auditing Standards**

- 5) The key elements that are required to be covered by members in relation to International Auditing Standards (UK&I) (IAS) are noted below:
- 6) Under ISA 240 the Council's appointed external auditors (EY) are required to understand how 'those charged with governance' exercise oversight of management processes for:
  - Identifying and responding to the risk of fraud in the Council, and the internal control that management has established to mitigate these risks;
  - Determining whether they have knowledge of any actual, suspected or alleged fraud affecting the entity;
  - Assessing the risk that the financial statements may be materially misstated due to fraud or error.
- 7) ISA 250 requires that external auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.

- 8) Additionally, those charged with governance must approve the financial statements, so an understanding as to how the Audit and Standards Committee obtains the necessary assurances to discharge this responsibility is also required.

### **Areas Covered in the Report**

- 9) The following sections summarise how members of the Audit and Standards Committee have been provided with assurance that key elements of the Council's internal control systems are being reviewed and reported upon. This is a consolidation report of items that have been presented to the Audit and Standards Committee throughout 2020/21, and covers the: -
- Annual Accounts (2019/20)
  - System of Internal Control
  - Governance Arrangements (and compliance with laws and regulations)
  - Counter Fraud Arrangements
  - Risk Management
  - Standards Issues
- 10) The Audit and Standards Committee comprises 7 non-executive members of the Council with proportionality applied and a maximum of 3 non-voting co-optees. Recruitment was undertaken in Jan 2020 and one new independent member was appointed.
- 11) There are currently two Standards members and one Committee Independent member that assist the Monitoring Officer in dealing with standards complaints against Councillors. They attend the meetings of the Committee when there is a Standards focus.
- 12) The Audit and Standards Committee members 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 External Audit also attend the Committee to present reports and to answer questions raised.

### **Annual Accounts**

- 13) Those charged with governance (the Audit and Standards Committee) are required to approve the financial statements. In order to do this effectively, the Audit and Standards Committee obtains the necessary assurances to discharge this responsibility via a number of submissions/reports.

- 14) Due to the impact of the Covid 19 pandemic the March 2020, April 2020 and June 2020 Audit and Standards Committee meetings were cancelled. As an interim measure, to help avoid delays, the EY Annual Audit Planning report (year ending 31/3/20) was circulate to members of the Committee for comment. The report covered an overview of EY 2019/20 audit strategy, audit risks, value for money risks, audit materiality and scope of their audit.
- 15) In July 2020, the Head of Strategic Finance reported upon the 2019/20 Unaudited Statement of Accounts and provided members of the Audit and Standards Committee with a summary of the core statements and number of key notes to the accounts. The report also explained that the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 had implemented new deadlines by amending the Accounts and Audit Regulations 2015. The key milestone is by the 30<sup>th</sup> November 2020 the Audit and Standards Committee should have considered and approved the Statement of Accounts, and then they need to be published on the Council's website.
- 16) A training session, facilitated by an independent provider, was delivered to members of the Audit and Standards Committee to assist with their understanding of the draft accounts.
- 17) In October 2020, EY provided a verbal update on the final accounts audit process, stating they are continuing to work to the November deadline. EY also reported that some risks had been identified including risk of fraud, the size of the property portfolio and a risk that pension valuations were mis-stated. These risks had all been previously identified and a consultation on pension liabilities and estimates was ongoing. The Medium-Term Financial Plan for 2021/22 to 2024/25 had been published, and it showed that the Council satisfied the going concern test for the next 12 months.
- 18) Ernst Young submitted a report to the Committee members in November 2020 summarising the key findings to date in relation to the 2019/20 external audit at Sheffield City Council. Further reporting it had been a challenging year. Key risks included property, plant and equipment value and commercial income had been hit by the pandemic. Pension valuations were also a challenging issue, as the valuation was subject to market volatility.
- 19) The Head of Strategic Finance presented the Statement of Accounts at the November 2020 meeting. The Audit and Standards Committee reviewed the accounts and questioned the officers on items contained therein. Due to some external audit work that was still ongoing, it was requested that approval be given to delegate authority to the Chair of the Audit and Standards Committee to sign off the Statement of Accounts when complete.

- 20) In accordance with ISA 260 External Audit are required to report any corrected audit differences to 'those charged with governance'. This includes any material misstatements which have been corrected. The audit identified four audit differences, which were adjusted in the final accounts. A further four misstatements to the financial statements and/or disclosures were highlighted which were not corrected by management.
- 21) In February 2021, the Head of Strategic Finance presented a report about the challenges facing External Audit Nationally. The challenges included increased regulatory requirements, shorter timetables, lower resources and the impact of Covid. The impact of the resources meant more pressure on local authority staff and mitigation would be required.
- 22) EY responded with a verbal update on the annual audit progress. It was hoped that all accounts work would be completed in time for the meeting on 22nd April 2021. This message was reiterated again at the verbal update from EY at the March 2021 Audit and Standards Committee meeting.

### **System of Internal Control**

- 23) 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 (AGS), Directors are required to confirm in writing that they have in place adequate systems to ensure compliance with the relevant rules and legislation relating to their area of activity; 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.
- 24) Internal Audit planning arrangements are designed to cover the significant risks of the Council and the plans are endorsed by the Audit and Standards Committee. The plan for 2020/21 was issued to the Committee members in June, along with a report describing the process for compiling the plan. The new plan for 2021/22 is on the same agenda as this report.
- 25) All Internal Audit reports containing a no assurance, or limited assurance, high organisational impact opinion are submitted to Committee members in full. An auditable area receiving one of these opinions is 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 review. Members can then forward any questions to the Senior Finance Manager, Internal Audit and responses are circulated to all. This process is used to ensure members are aware of any breaches of, or deficiencies in, internal control.
- 26) Bi-annual update reports are provided to the Committee to outline progress on the implementation of recommendations contained within the no assurance and limited assurance 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. No such issues have arisen in 2020/21.

- 27) The Senior Finance Manager (Internal Audit) produces an independent annual report which was presented to the November 2020 Audit and Standards Committee highlighting the work undertaken on the Council's control environment and her opinion on the Council's control arrangements. For 2019/20 the Senior Finance Manager (Internal Audit), was satisfied that the risk management, governance and internal control framework was adequate to allow the Council to conduct its business appropriately.

### **Governance Arrangements (and compliance with Laws and Regulations)**

- 28) The governance framework of the Council comprises the systems and processes, and cultures and values by which the Council is directed and controlled. The framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 29) The Council constantly reviews key governance documents, such as the Constitution and the Leader's Scheme of Delegation, supported by the Standing Orders and Financial Regulations to ensure that they are fit for purpose.
- 30) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement (AGS). The 2019/20 AGS highlighted two significant control weaknesses - Performance of the Special Educational Needs and/or Disabilities Service (SEND) and the Annual Letter from the Local Government and Social Care Ombudsman (LGSCO). This weakness related to a failure to meet Ombudsman response times, and the issue was going to be referred to EMT to agree a strategy to improve performance.
- 31) These issues will continue to be monitored by the Executive Management Team and progress will be reported back to the Audit and Standards Committee.
- 32) The Information Management Annual Report was presented to the November 2020 Committee. The report provided an overview of the Information Governance arrangements and performance at the Council for the last financial year and provided assurance around the policies, processes and practices employed to ensure we meet our legal requirements. It was a retrospective report, covering the year 2019/20. Therefore, this report did not include the impacts of COVID-19 on performance.

- 33) In January 2021, The Assistant Director – ICT Service Delivery presented a report in relation to ICT Insourcing to Capita stating that the insourcing ICT had been successful, and the Council now had full control of its ICT infrastructure.
- 34) Every executive report must include financial and legal implications and equal opportunities implications as a minimum. The financial and legal implications are signed-off following submission to the relevant professional services. This process gives the Council and Audit and Standards Committee assurance that law and regulations are complied with.
- 35) The Senior Finance Manager (Internal Audit) presented her independent annual report to the November meeting of the Audit and Standards 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. No material non-compliances with law and regulations have been identified through the audit work performed.
- 36) The Senior Finance Manager for Internal Audit retains independent access rights to the Chief Executive of the Council, along with access rights to the Chair and other members of the Audit and Standards Committee.
- 37) In October 2020, the Director of Legal and Governance presented the Code of Corporate Governance report which set out an updated version of the Council's Code of Corporate Governance, how Sheffield City Council complied with it and how it would be used to assess the Council's effectiveness as part of the Annual Governance Statement. The Code of Corporate Governance followed a framework set by CIPFA.

### **Counter Fraud Arrangements**

- 38) The primary responsibility for the prevention and detection of fraud rests with both SCC management and those charged with governance. It is important that management place a strong emphasis on fraud prevention, which may reduce the opportunities for fraud to take place; and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.
- 39) The Council's Anti-fraud and Corruption Policy Statement and Framework, clearly states that the Council has a zero tolerance to fraud, and that it expects its employees to uphold the highest ethical standards and to strictly adhere to its anti-fraud framework and associated policies.



- 40) As part of the Officers' Code of Conduct, the Policy Statement - Fraud and 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.
- 41) Within Internal Audit, counter fraud resources are allocated in the annual Internal Audit plan issued to the Audit and Standards Committee in June 2020.
- 42) In June 2020, a report was produced for the Audit and Standards Committee to summarise the reactive and pro-active fraud activity undertaken by Internal Audit in 2019/20. Internal Audit conducted six pro-active counter fraud exercises. Issues from these reviews were discussed and actions agreed with the relevant managers in the areas concerned. These reviews did not identify any instances of fraud being undertaken. A similar report will be presented in due course for 2020/21.
- 43) Appended to the 2020 Fraud Report was a completed checklist for 'those charged with governance'. The document was prepared by Internal Audit to highlight to the Audit and Standards Committee that the Council has in place adequate arrangements for the prevention, detection and investigation of fraud that may occur within SCC.
- 44) In January 2021, a report was produced for the Audit and Standards Committee to update members on Fraud Prevention activities in a Covid 19 environment. This report stated that the audit plan has been under constant review and the plan concentrated on areas that have been affected by Covid 19.
- 45) Any individual incidents of a material scale will continue to be reported to the Audit and Standards Committee by Internal Audit, and the Audit and Standards Committee can call in officers to respond to the issues raised. Internal Audit has detected no material frauds during the year (to date).
- 46) The Cabinet Office is responsible for the National Fraud Initiative and the exercise for 2020/21 is being concluded. The required data sets were submitted in October 2020, which resulted in a significant number of data matches being received in January 2021.
- 47) Internal Audit distributed the matches to the relevant service areas across the Council who are responsible for reviewing the data, taking the appropriate action (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. Internal Audit has provided support throughout the year to services to ensure the strong data matches were investigated and the outcomes appropriately recorded.

- 48) SCC has 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. Whistleblowing allegations are all reviewed and where appropriate fully investigated by someone independent of the area.
- 49) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed. Much of the fraud investigation work is undertaken by management supported by Internal Audit and HR.

### **Risk Management**

- 50) The Council has a risk management framework in place that has been agreed by Cabinet. The Corporate Risk Manager attended the Audit and Standards Committee in January 2021 to present to members a report on the current risk management reporting arrangements within the Council. The reports included the risk trend analysis as well as the current and emerging risks to delivery of the Council's strategic objectives and the controls in place to manage those risks. Audit and Standards Committee members are given the opportunity to question any issues raised.
- 51) 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, and 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.

### **Standards Issues**

- 52) An Ethical Standard workshop was held for members of the Committee in September 2019. Best Practice recommendations arose from this workshop, one including changes to the Members Code of Conduct and Councillor Complaints procedures. At the July 2020 meeting the Director of Legal and Governance presented a report that included the amended Code of Conduct and Complaints Procedure which considered 15 areas of best practice which were put into a traffic light system so that it is clear where the Council needed to improve. The Committee also considered the LGA consultation.
- 53) The Committee accepted the proposed changes to the Code of Conduct and the Procedure for Dealing with Complaints regarding City, Parish and Town Councillors and Co-Opted Members for approval and forward to full Council for adoption.

- 54) In February 2021, The Director of Legal and Governance presented the Model Code of Conduct and Code of Conduct Training for members and explained that although the Council's current Code of Conduct had only recently been approved by Council, the LGA had now published a Model Code of Conduct which councils could use. The Committee agreed that officers should compare the Sheffield City Council Code and the LGA Model code and bring a new version back to the next meeting of the Audit and Standards Committee for consideration.
- 55) In March 2021, members were provided with the updated Members Code of Conduct, following agreement that the Council would adopt the Model Code of Conduct incorporating elements of the current Code of Conduct. Members also agreed the proposals for the Member Development Training Programme.
- 56) The Director of Legal and Governance presented an Annual Standards Report in January 2021. The report provided information on the volume of complaints made against councillors during 2019 and 2020. The Audit and Standards Committee reviewed the summary of complaints and questioned the officers on items contained therein.
- 57) The Head of Customer Services presented the Annual Ombudsman Complaints report for 2019/20 in February 2021. The Audit and Standards Committee questioned the officers on items contained within the report.
- 58) Officers presented an update on Universal Credit (UC) in March 2021. The report set out: the background to UC including the issues faced by claimants before Covid-19; what has happened to UC since the pandemic; how the city and SCC has responded to UC; information about Council Tax Support and Council Housing; the poverty and income impacts of Covid-19 (including UC); and forthcoming issues.

### **Requested actions**

- 59) Members are asked to confirm that this report gives an accurate reflection of the items that they have received and considered throughout the year.
- 60) Members are also asked to confirm that they 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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