



## Audit and Standards Committee Report

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

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**Date:** 24th March 2022

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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)**

**March 2022**

**Introduction**

- 1) **International Standards on Auditing (ISA)** are professional standards for the performance of financial audits. 'Those charged with governance' oversee an organisation's 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 fifteen 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 2021/22, and covers the: -
- Annual Accounts (2019/20 and 2020/21)
  - 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 of 7 non-executive members of the Council with proportionality applied and a non-voting co-opted member.
- 11) There are currently two Standards Committee Independent members and one Parish representative (observer). 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) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the accuracy of the Annual Accounts:
- EY 2019/20 ISA 260 memo – (Apr 21)
  - Unqualified EY Opinion on the 2019/20 Statement of Accounts – (June 21)
  - Training for ASC members on the Statement of Accounts – (Nov 21)
  - Report from officers outlining the 2020/21 accounts (July 21)
  - EY Audit Plan 2020/21
  - Updates on progress on the audit from EY, Oct 21 and Jan 22
  - EY 2020/21 ISA 260 memo (Jan 22)
  - Report from officers discussing the (almost final) post audit Statement of Accounts (Jan 22)
  - Unqualified EY Opinion on the 2020/21 Statement of Accounts – (Mar 22)
- 15) At the September 2021 meeting the External Audit Re-Procurement was discussed. The Head of Strategic Finance explained what factors need to be considered when re-procuring the Council's external audit service. The committee endorsed the decision to opt-in to Public Sector Audit Appointments (PSAA) re-procurement.

### **System of Internal Control**

- 16) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the Systems of Internal Control:
- Bi-annual update reports on the implementation of audit recommendations (contained within the no assurance and limited assurance opinion reports) – (Apr 21 and Jan 22)
  - Education Healthcare Plan – (Apr 21)
  - Internal Audit Plan 2021/22 – (Apr 21)
  - Senior Finance Manager (Internal Audit) Annual Report – (Sept 21)
  - Public Sector Internal Audit Standards (PSIAS) Peer review report – Jan 22)
- 17) 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.
- 18) 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.

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

- 19) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the accuracy of the Governance Arrangements:
- Annual Governance Statement (AGS) 2020/21 – (Sept 21)
  - Senior Finance Manager (Internal Audit) Annual Report – (Sept 21)
  - Information Governance Annual Report – (Jan 22)
- 20) 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.
- 21) 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.
- 22) 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.
- 23) 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.

### **Counter Fraud Arrangements**

- 24) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the accuracy of the Counter Fraud Arrangements:
- Internal Audit Plan 2021/22 included the counter fraud resource – (Apr 21)
  - Report of reactive and pro-active fraud activity undertaken by Internal Audit in 2020/21 – (June 21)
  - Report providing information on activity under the Whistleblowing Policy from 2018 to the present date – (Jan 22)

- 25) 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.
- 26) 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.
- 27) 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.
- 28) 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).
- 29) The Council participates fully with the National Fraud Initiative (NFI) exercise, and no significant frauds were identified this year.
- 30) 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.

### **Risk Management**

- 31) 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 September 2021 to present to members a report on the current risk management reporting arrangements within the Council. The report 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 were given the opportunity to question any issues raised.
- 32) 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**

33) The following items give the Audit and Standards Committee confidence that it has adequate assurance over the Standards issues:

- Standards Complaints Process Internal Audit report – (July 21)
- Annual Ombudsman Report – (Oct 21)
- Overview Report of the Service Contact Centre – (Oct 21)
- Progress update with Member Development at the Council – (Oct 21)
- Report of the process for dealing with Standards Complaints and Members Code of Conduct – (Feb 22)
- Annual Standards Report – (Feb 22)

## **Requested actions**

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

35) Members are also asked to confirm 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 International Auditing Standards.