

AUDIT COMMITTEE

ANNUAL REPORT 2011/12

To be considered at the Council Meeting on 23 January 2013



FOREWORD

I am pleased to present this report to Council on the work of the Audit Committee in 2011/2. The report shows how the Committee has contributed to monitoring and improving the Council's governance and internal controls.

There have been five busy meetings this year. The Committee continued with its core business, such as approving the Accounts, and it was pleasing to note that the External Auditor had issued an unqualified opinion on the financial statements for 2010/11 and an unqualified value for money conclusion. We also strengthened the way we consider High Opinion Audit Reports and commented on the revised Corporate Risk Register.

Over the past two years the Committee has been monitoring the financial and commercial risks associated with the Council's major external relationships. This year we also established a Working Group to take a closer look at the financial and commercial risks of one of those organisations, Museums Sheffield. The Committee made useful recommendations relating to the clarity of the governance structure and reporting back arrangements and the role of councillors on Trust Boards.

I would also like to place on record my thanks to Paul Billington and David Macpherson from Culture and Environment, Paul Schofield from Finance and Kim Streets and Helen Morris from Museums Sheffield. They attended the Working Group and provided helpful information and were open and honest in answering questions from members of the Committee.

This has been the first year with our two independent members, Rick Plews and Beryl Seaman. I have enjoyed working with them both and feel the decision to recruit independent members to the Committee has proved the right one. They bring additional skills and experience and an external perspective to the workings of the Council and have added value to the Committee's work.

The Committee could not function without the hard work of its members. They provided robust challenge and scrutiny to the reports and issues that were considered during the year. I would like to thank the Deputy Chair, Councillor Joe Otten, for his support and assistance.

I would also like to thank the Council officers that support the Committee and the External Auditor and his team. I look forward to working with KPMG who were appointed as the External Auditor for the Council from September 2012.

Finally, I confirm that there are no specific 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 2011/12.



Councillor Ray Satur, Chair of the Audit Committee

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1. INTRODUCTION

- 1.1 This is the fifth year of the Audit Committee. The Annual Report highlights the work of the Audit Committee and how it has contributed to monitoring and improving the Council's corporate governance and internal controls.

2. COMMITTEE INFORMATION

2.1 Meetings/Membership

- 2.1.2 There were five meetings of the Committee and the Members were:

- Councillor Ray Satur (Chair)
- Councillor Joe Otten (Deputy Chair)*
- Councillor Martin Lawton
- Councillor Bob Johnson
- Councillor Jack Scott
- Councillor Shaffaq Mohammed
- Rick Plews - Independent non-voting co-opted member
- Beryl Seaman - Independent non-voting co-opted member

*replaced Councillor Paul Scriven in November 2011

2.2 Support to the Committee

- 2.2.1 As in previous years, the Committee has benefitted from being well supported by Council Officers. This included the Chief Executive, Deputy Chief Executive, Executive Director of Resources, Director of Finance, Chief Internal Auditor, Deputy Director of Finance, Director of Modern Governance, Director of Legal Services and officers in Finance, Internal Audit, Modern Governance and other Directorates. There has also been close working with the External Auditor (the Audit Commission) and his Audit Manager.

3. WORK OF THE COMMITTEE DURING THE YEAR

- 3.1 This section contains a summary of the work undertaken during the year. The Committee's terms of reference and a list of the items considered are attached as appendices to the report.

3.2 **Work Programme**

- 3.2.1 At the start of the year there is discussion with senior officers and the Chair and Deputy of the Committee on the work programme for the year. This is based around the terms of reference and items the Committee requests during the year. The work programme is then reviewed at each Committee meeting.

3.3 **Internal Audit Activity**

- 3.3.1 The Committee considered:

- Internal Audit Planning Report 2012/13
- Progress on High Opinion Audit Reports

- The Chief Internal Auditor's Annual Report 2010/11
- Summary of Internal Audit Reports
- Audit Plan 2011/12

Internal Audit Planning Report 2012/13

- 3.3.2 The Chief Internal Auditor's report set out Internal Audit's future strategy and Work Programme for 2012/13, in light of the budget reductions in 2011/12 and over the next two years. The strategy would focus on some specific areas of activity which could provide assurance that risk and internal control issues were being properly managed by Directors in service areas. Following discussions with the Director of Finance and the Executive Director Resources, a fundamental shift in the utilisation of Internal Audit's resources was proposed.
- 3.3.3 In terms of building in resilience, initial discussions had been held with the Core Cities Authorities who were all receptive to the development of a protocol to govern resource sharing and this would be explored further with neighbouring authorities. Also the planning process would be very challenging and need to be much more flexible and responsive than in previous years.
- 3.3.4 Whilst endorsing Internal Audit's Work Programme, the Committee were keen to monitor the impact of delivering the new approach to audit activity and requested the Chief Internal Auditor to submit a progress report to each meeting of the Committee.
- #### High Opinion Audit Reports
- 3.3.5 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 to manage risks were not present at the time of the review.
- 3.3.6 The Committee received two progress reports on the seven High Opinion Audit Reports that had been issued relating to:
- Schools ICT
 - Urban Traffic Control
 - Section 106 Planning Income
 - Sheffield Is My Planet Project
 - Creative Sheffield - Application of Procedures
 - Health and Safety - Fire Safety
 - Partnership Arrangements for Sheffield Homes
- 3.3.7 Members expressed concern as to the progress against the recommendations reported relating to Section 106 Planning Income. A report providing further detail and progress in response to the recommendations was considered in May 2012. The Head of Planning and Director of Finance were requested to undertake further work on the reconciliation of the databases to improve on the 93% of the value of the Section 106 Agreements that had been reconciled. A further report on this work was submitted to the Committee in August 2012.
- 3.3.8 Following an issue raised by the independent members of the Committee, a process was agreed that members of the Committee would receive the final version of the High Opinion Audit Reports. There would be the opportunity to ask questions at the next meeting of the Committee and the relevant Director or Senior Manager from the service could be asked to attend the meeting.

Chief Internal Auditor's Annual Report 2010/11

- 3.3.9 The report highlighted the work that had been undertaken by Internal Audit during the year and supported the Council's Annual Governance Statement. The Chief Internal Auditor was satisfied that the core systems included control arrangements which were adequate to allow the Council to conduct its business properly.

3.4 **External Audit**

- 3.4.1 The Committee considered:

- Audit Plan 2011/12
- Annual Audit Letter 2010/11
- Certification of Claims and Returns Annual Report 2010/11

Audit Plan 2011/12

- 3.4.2 The External Auditor submitted his Audit Plan for 2011/12 that included the significant and specific risks, an outline of the proposed work, timetable and planned outputs as well as details of the audit fee. As the Audit Practice staff were due to transfer to a new employer by 31 October 2012, it was intended to complete the 2011/12 Audit by that date.

Annual Audit Letter 2010/11

- 3.4.3 The External Auditor submitted his formal report following the conclusion of the 2010/11 audit. He had issued an unqualified opinion on the financial statements for 2010/11 and an unqualified value for money conclusion which confirmed that the Council had satisfactory corporate arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

- 3.4.4 In relation to the 'Section 11' recommendation in the report relating to debt due from the other South Yorkshire Councils, the Chief Executive outlined the process intended to conclude the matter and confirmed that progress would be reported to Full Council in March 2012. The Council Meeting accepted the External Auditor's Section 11 recommendation.

Certification of Claims and Returns Annual Report 2010/11

- 3.4.5 The External Auditor submitted a report on the certification work on the Council's claims and returns for 2010/11 in relation to grants and subsidies it received from the Government and grant paying bodies. Fifteen claims had been certified with a total value of £494m and, arising from the work, nine had been certified without amendment, compared with five for the previous year. The report included the recommendations arising from the work and details of progress made in implementing the recommendations arising from previous certification work.

3.5 **Regulatory Framework and Risk Management**

- 3.5.1 The Committee considered:

- Annual Governance Statement 2010/11
- Compliance With International Auditing Standards
- Financial/Commercial Monitoring of External Relationships
- Audit Commission Report - Protecting The Public Purse
- Corporate Risk Management
- Corporate Risk Register

- Revised Code of Corporate Governance

Annual Governance Statement 2010/11

- 3.5.2 The Director of Modern Governance submitted the Council's Annual Governance Statement which formed part of the Council's Statutory Accounts. The Statement explained how the City Council complied with the Code of Corporate Governance and also met the requirements of the Accounts and Audit Regulations 2003, as amended, in relation to the publication of the Statement.
- 3.5.3 In January 2012, the Committee received a report on the progress on five significant control weaknesses had been identified, relating to:
- Museums Sheffield
 - Elections
 - Reviewing Policy and Practice in the Administration of Medication in Adult Social Care
 - Consistency of Property Policies and Procedure Across All Council Premises
 - People Management Procedures – Consistency of Approach, Payroll and HR Connect.
- 3.5.4 Arising from that report, the Committee requested a report about Human Resources/Payroll procedures. This was submitted to the Committee in August 2012.

Compliance With International Auditing Standards

- 3.5.5 The Executive Director, Resources submitted a report that highlighted to the Committee how it could demonstrate to the External Auditors that it had exercised the required oversight in order to meet the requirements of the International Standards on Auditing. The Committee confirmed that it has a significant overview at the highest level 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.
- 3.5.6 Arising from the report:
- the Chief Internal Auditor was requested to examine how reports that are made available to Members and Officers on the Council's intranet, such as the Fraud Response Plan, are made available to the Committee's Independent Members. Intranet access was subsequently provided to both the Independent Members.
 - the Director of Legal Services and the Director of Human Resources were requested to examine having a simple form to assist people that want to whistleblow.
 - The revised Whistleblowing Policy was submitted to the Committee in August 2012.

Commercial/Financial Monitoring of External Relationships

- 3.5.7 In 2009, the Committee received a report on a number of actions taken and processes developed to strengthen the Council's management of its numerous relationships with external bodies. This was in a response to a number of recommendations made by the Council's Internal and External Auditors and supported the Council's aim of promoting good governance arrangements. The Executive Management Team has been ensuring that the Council continues to have

a clear picture at a corporate level of what these relationships are, and ensures that they are structured and managed appropriately and effectively and that they are monitored and reviewed on a regular basis.

- 3.5.8 The Committee continued to receive progress reports on the commercial and financial monitoring of the 26 major external relationships.
- 3.5.9 This year the Committee decided to undertake a more detailed examination of the financial and commercial risks of a small number of the Council's major external relationships. It was agreed that Museums Sheffield would be the first partnership to be considered and that this would be undertaken through a Working Group of the Committee. Two issues arose from that piece of work relating to the clarity of the governance structure and reporting back arrangements and the role of councillors on Trust Boards.
- 3.5.10 Arising from the Committee's recommendations:-
- The Director of Modern Governance reviewed the role of Councillors on all Trust Boards and a report on external appointments was submitted to the Committee in September 2012.
 - The Director of Culture and Environment prepared a diagram that showed clear, simple and transparent reporting arrangements and governance structure for the Council's relationship with Museums Sheffield. This was also used as a template to explain the reporting arrangements and governance structures for the Council's relationship with all the other Trust Boards.

Audit Commission Report - Protecting The Public Purse

- 3.5.11 A report of the Executive Director, Resources informed the Committee of the contents and key recommendations of the Audit Commission's annual report on 'Protecting the Public Purse' and provided an update of fraud investigation activity within the Council, including a completed checklist for 'those responsible for governance' that identified the key fraud risks.
- 3.5.12 The Committee supported Internal Audit's ongoing implementation of counter-fraud initiatives throughout the authority.

Corporate Risk Management/Corporate Risk Register

- 3.5.13 In November 2011, the Director of Transformation Services and Performance submitted a report indicating that the Council was formalising and improving its approach to managing risk as an organisation. The report set out the current approach to risk management, together with a number of proposed improvements to the risk approach that included restating what was expected in terms of risk at a service, Portfolio and corporate level, consolidating existing risk registers and adopting a common approach to support risk reporting.
- 3.5.14 The Director was requested to report a number of suggestions from this Committee to the Council's Task and Finish Group on Corporate Risk Management
- 3.5.15 The Committee also received a report of the Director of Performance and Communications in January 2012 which set out the current approach to risk management and presented the latest version of the consolidated Corporate Risk Register. The Committee noted that appropriate processes were in place for

managing risk.

Revised Code of Corporate Governance

- 3.5.16 The Committee received a report of the Deputy Chief Executive that contained a revised Code of Corporate Governance. The Code outlined why good governance was important, how the Council defined this and how it would ensure that it took place. The report explained that good governance ensured that the Council fulfilled its purpose wisely and openly with all due accountability to local people. The Code was a key tool for ensuring the quality of the Council's governance arrangements and a clear public statement of the principles the Council would follow. The revised Code had been approved by the Council Leader and was shorter and fit for purpose.
- 3.5.17 Arising from consideration of the report, the Director of Human Resources agreed to include a shorter version of the Code in advice to managers for new staff from September 2012.

3.6 **Accounts**

3.6.1 The Committee considered:

- Summary of the Statement of Accounts
- Statement of Accounts 2010/11
- Annual Governance Report 2010/11

Statement of Accounts

- 3.6.2 In August 2011, the Deputy Director of Finance submitted a report providing a summary of the Statement of Accounts for 2010/11 and a brief introduction of the new format following the introduction of International Financial Reporting Standards (IFRS), in advance of a more detailed explanation to the Committee in September 2011. As a result of introducing IFRS, there had been a considerable amount of change to the format of the Statement of the Accounts. The report presented a summary of the core financial statements and a number of the key notes to the accounts. The report also explained the approval process for the Statement of Accounts and the Audit Committee's role in this process.
- 3.6.3 The Statement of Accounts for 2010/11 was approved by the Committee in September 2011.

Annual Governance Report 2010/11

- 3.6.4 The External Auditor submitted his Annual Governance Report that summarised the findings from the 2010/11 audit of the accounts. The key messages were:
- The quality of the accounts and supporting evidence was good and officers had managed the introduction of International Financial Reporting Standards well.
 - The underlying systems and processes to produce the year-end fixed assets accounts remained cumbersome and did not therefore facilitate the most efficient accounts closedown process.
 - A number of errors had been identified, some of which were material, which officers had agreed to amend. None of these had any impact on the overall income and expenditure position.

Yorkshire South Tourism

- 3.6.5 In August 2011, the Committee considered a report of the Executive Director, Resources on the findings of a review into matters of mismanagement at the Yorkshire South Tourism Service.
- 3.6.6 The Committee acknowledged the work that had been undertaken by senior management to improve the control framework for the service going forward and requested the Deputy Chief Executive to ensure that the learning from the review is rolled out into other partnership arrangements.

4. CO-OPTED INDEPENDENT MEMBERS

- 4.1 Rick Plews and Beryl Seaman were appointed as the first co-opted members of the Committee in May 2011.
- 4.2 During their first year they have been a valuable addition and have brought additional experience and external scrutiny and challenge to the work of the Committee. The process for members to receive High Opinion Audit reports outlined at paragraph 3.11 of the report arose from an issue raised by the independent members.
- 4.3 Both members were asked to comment on their experiences during the year and their comments included:
- The support received from the Chair and members of the Committee and officers has been welcomed.
 - Meetings have been effectively chaired and conducted in a timely manner.
 - The Committee has embraced the fresh thinking, experience and ideas they have brought.
 - They have learned a great deal about how the Council works.
 - Found it to be an enjoyable and interesting experience.
 - Highlighted areas that the Committee could examine, including more emphasis on risk management.
 - Suggested greater involvement for the Committee in setting its work programme.
- 4.4 The comments from the independent members will be taken on board and incorporated into the work of the Committee next year.
- 4.5 Over time they could be amongst the most experienced members of the Committee as the Council members can often change each year.

5. APPOINTMENT OF EXTERNAL AUDITOR

- 5.1 The Committee were informed in May 2012 that KPMG had been appointed as the External Auditor for the Council and the Yorkshire and the Humber area for five years from 1 September 2012. The Audit Commission continued as the Council's External Auditor until September 2012.

6. TRAINING AND DEVELOPMENT

- 6.1 As in previous years, a briefing was held to assist Members in approving the Statement of Accounts and Annual Governance Report.

- 6.2 Access to the Council's intranet has been provided for both the independent members of the Committee to enable them to be able to access additional relevant material.
- 6.3 Councillor Ray Satur, supported by the Chief Internal Auditor, also attended the Core Cities Audit Committee Chairs' Meeting that shares best practice and discusses key issues.

7. **OUTCOMES**

- 7.1 The Audit Committee aims to add value through its activity and, in particular, it has:
- Approved the Statement of Accounts.
 - Accepted the Annual Governance Report.
 - 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.
 - Noted that the Chief Internal Auditor was satisfied that the core systems included control arrangements which were adequate to allow the Council to conduct its business properly.
 - Monitored the actions arising from the Annual Governance Statement.
 - Strengthened the way it considers High Opinion Audit reports.
 - Commented on the revised Corporate Risk Register.
 - Made positive recommendations for dealing with external appointments and having clear, simple and transparent reporting arrangements and governance structures for the Council's relationship with Museums Sheffield and other Trust Boards.

8. **THE YEAR AHEAD**

- 8.1 The Committee will seek to build on what it has achieved this year and continue to work within its terms of reference and address issues that arise during the year.
- 8.2 Training and development opportunities will continue to be offered to members of the Committee to meet their needs and ensure that they can discharge their responsibilities.
- 8.3 There has been a close working relationship with the Audit Commission, the Council's previous External Auditor. The Committee will want to continue this relationship with KPMG that took over as the External Auditor for the Council and the Yorkshire and the Humber area from September 2012.

Councillor Ray Satur, Chair of the Audit Committee 2011/12

Appendix A - 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.

Appendix B - Items Considered During the Year

23 August 2011

- Co-opted Members
- Annual Governance Statement
- Summary of the Statement of Accounts 2010/11
- Progress on High Opinion Audit Reports
- Yorkshire South Tourism
- Work Programme

28 September 2011

- External Audit Annual Governance Report 2010/11
- Statement of Accounts 2010/11
- Chief Internal Auditor's Annual Report
- Audit Committee Annual Report
- Work Programme

9 November 2011

- Corporate Risk Management
- Financial/Commercial Monitoring of External Relationships
- Work Programme

11 January 2012

- Annual Governance Statement Progress Report
- Summary of Internal Audit Reports/Progress on the High Opinion Audit Reports
- Debtors Position in 2010/11 and Level of Bad Debt Provision
- Work Programme
- Audit Plan 2011/12
- Annual Audit Letter
- Corporate Risk Register
- Financial/Commercial Monitoring of External Relationships

25 April 2012

- Working Group on the Financial/Commercial Monitoring of External Relationships

15 May 2012

- Internal Audit Planning Report 2012/13
- Compliance with International Auditing Standards
- Audit Commission Report – Protecting the Public Purse
- Certification of Claims and Returns Annual Report 2010/11
- External Auditor Appointment for 2012/13 and Future Years
- Code of Corporate Governance
- Section 106 Planning Income
- Work Programme
- Financial/Commercial Monitoring of External Relationships