



Agenda Item 8

Audit Committee Report

REPORT TO AUDIT COMMITTEE

DATE

17 April 2013

REPORT OF Assistant Director of Finance, Business Partnering and Internal Audit.

ITEM

SUBJECT

Compliance with International Auditing Standards

SUMMARY

This report has been drafted at the request of the Chair of the Audit Committee to highlight to the Audit Committee how they can demonstrate to the External Auditors that they have exercised the required oversight in order to meet the requirements of the International Standards on Auditing.

RECOMMENDATIONS

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

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
17

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

Kayleigh Inman

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273 5608

AREA(S) AFFECTED

CATEGORY OF REPORT

Open

Statutory and Council Policy Checklist

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

Sheffield City Council

Report to the Audit Committee April 2013

Compliance with International Auditing Standards (IASs)

Elements of the Council's System of Internal Control reviewed by the Audit Committee in order to form their opinion on the adequacy of control

Introduction

- 1) As part of the requirements of the International Auditing Standards (IAS) there is a requirement for those charged with governance (in the case of Sheffield City Council this is the Audit Committee) to demonstrate that they have exercised adequate oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. This is an annual report which consolidates the oversight that has been undertaken by the audit committee. This report formalises in one document the assurance work undertaken by Audit Committee during the past year and demonstrates to the External Auditors and the wider public that all the areas of the control framework have been adequately assessed.
- 2) This report has been drafted at the request of the Chair of the Audit Committee to highlight to the Audit Committee how they can demonstrate that they have exercised the required oversight in order to meet the requirements of the International Standards on Auditing.
- 3) The Council's External Auditors have changed during the year from the service provided directly by the Audit Commission to KPMG following a national procurement exercise undertaken by the Audit Commission prior to its abolition.

Key Requirements of the Internal Auditing Standards

- 4) *The key elements that are required to be covered by Members in relation to the IAS are noted below.*
- 5) *Under International Auditing Standard on Auditing (UK&I)240 the Audit Commission are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. Explicit to this is gaining confirmation from the Audit Committee of the following:-*
- 6) *(i) how the Audit Committee oversees management processes to identify and respond to such risks (ie both counter-fraud arrangements, and more general oversight of internal control arrangements), and*

(ii) whether you have knowledge of any actual, suspected or alleged frauds affecting the Council.

- 7) *A second International Standard on Auditing (ISA(UK&I)250) requires that auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with. Again an understanding of how this responsibility is discharged.*
- 8) *Additionally those charged with governance must approve the financial statements, so an understanding as to how the Audit Committee obtains the necessary assurances to discharge this responsibility (for example assurances over the qualifications, experience and suitable numbers of key accountancy staff preparing the accounts, robust general ledger and key financial systems, adequate closedown planning, suitable Quality Assurance processes).*

Areas Covered in the Report

- 9) The following paragraphs summarise how the Members of the Audit Committee can gain assurance that key elements of the Council's internal control systems are being reviewed and reported to the Audit Committee. This is a consolidation report of items that are reported to the Committee throughout the year, so that the Committee can be assured that the various elements are covered: -
- Annual Accounts
 - System of Internal Control
 - Governance Arrangements
 - Counter Fraud Arrangements
 - Risk Management
- 10) The report will also highlight where it has been agreed to supply additional information over the coming year to the Audit Committee on specific issues. Officers of the Council and the External Auditors also attend the Committee to present reports and to answer questions raised.
- 11) The Audit Committee includes both elected Councillors and two independent non-voting Members; Rick Plews and Beryl Seamens. These two individuals have brought considerable skills and external experience to the committee. It is noted that the Audit Committee have taken a number of steps to help them undertake their roles and responsibilities. This has included taking independent advice and training.

Annual Accounts

- 12) Those charged with governance (the Audit Committee) must approve the financial statements. In order to do this effectively, the Audit Committee obtains the necessary assurances to discharge this responsibility (for example assurances over the qualifications, experience and suitable numbers of key accountancy staff preparing the accounts, robust general ledger and key financial systems, adequate closedown planning, suitable QA processes).
- 13) The Director of Finance reviews these issues and reports upon the arrangements for the production of the Annual Accounts when he presents them at the appropriate time for sign off.
- 14) The Audit Committee review the accounts and question the Officers on items contained therein. Where additional information is requested, this has been provided to the committee promptly in a suitable form for discussion. In the current year the Audit Committee was satisfied with the arrangements and answers given when the accounts were presented. Additional information was requested and provided on section 106 Planning Income.
- 15) The External Auditors audit the accounts and present a report on their findings to the September Audit Committee prior to the accounts being finalised. This allows Members to have an independent opinion on the Accounts. Issues raised by the External Auditors are followed up by the Council Officers and progress is reported to the Audit Committee at appropriate intervals. The 2011/12 accounts were closed by the District Auditor within the required timescales. The External Auditors Annual Governance report 2011/12 was issued in September 2012 and the Annual Audit letter was issued in December 2012. This letter contained an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts; and concluded that the Council have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.
- 16) The External Auditors certify claims and annual returns. An annual report was provided to the Audit Committee in December 2012 which detailed their findings and opinions on the claims that they examined.

System of Internal Control

- 17) In March 2012 the Leader of Sheffield City Council signed off the revised Code of Corporate Governance. This Code of Corporate Governance sets out why good governance is important, explains how Sheffield City Council defines this, and tells how it will make sure that it takes place. This Code supports the work of the two key internal committees – Audit Committee and Standards Committee. This report was conveyed through the Council's website to all members, staff and the general public.

- 18) As part of the sign-off process for the Annual Governance Statement, the Directors are required to confirm in writing that they have in place adequate systems that ensure compliance with the relevant rules and legislation pertaining to their area of activity and this is used as a basis of the production of the statement. They also confirm that they are managing the risks pertaining to their service.
- 19) The Annual Governance Statement was presented to the Audit Committee in September 2012 following sign off by the Chief Executive and Council Leader. Updates on progress made against the items contained in the statement are provided to the Committee. The latest of these reports was presented to the Audit Committee in January 2013.
- 20) Internal Audit planning arrangements are designed to cover the significant risks of the Council and the plans are endorsed by the Audit Committee - the current plan was endorsed in May 2012. The new plan for 2013/14 and a revised process for audit planning arrangements are reported separately to this meeting (April 2013).
- 21) Although copies of all reports are not shared with the Committee, the Chief Internal Auditor would report on any serious breaches of control arrangements or where it is felt that management are not adequately dealing with matters of concern. A process has been devised which now ensures that the Audit Committee receive copies of all Internal Audit reports that are given a "high opinion". The members of the Audit Committee can then forward questions on these reports. The Chief Internal Auditor also submits to the Audit Committee twice yearly reports which show the actions that have been made by appropriate management in relation to the recommendations made (as supplied by the relevant service management). These reports came to the Committee in August 2012 and January 2013. These also showed the outcomes of any follow-up work which had been undertaken by Internal Audit in the intervening period.
- 22) The Chief Internal Auditor produces an independent annual report to the Audit Committee which highlights the work undertaken on the Council's control environment and his opinion on the control arrangements. This report came to the Committee in September 2012.

Governance Arrangements

- 23) As highlighted in para. 15 above the Council has reissued a revised Code of Corporate Governance in 2012 and the document will be reviewed and amended where appropriate every three years. This was presented to the Committee in May 2012.
- 24) This area is primarily the remit of the Council's Monitoring Officer, who provides reports to the Audit Committee on these issues.

- 25) A report on the Council's whistleblowing policy was presented to the Audit Committee in August 2012.
- 26) Reports were also delivered on the Financial/Commercial Monitoring of External Relationships in August 2012 and December 2012. A separate report on South Yorkshire Digital Region was also delivered to the Committee in September 2012.
- 27) An internal report regarding the governance arrangements in Marketing Sheffield was presented to the Committee in December 2012 and follow-up actions were reported to the January 2013 meeting and is included in the agenda for April 2012.
- 28) Directors confirm compliance with the governance arrangements as part of their sign off for the Annual Governance Statement.

Counter Fraud Arrangements

- 29) Counter Fraud resources are allocated in the annual Internal Audit plan as presented to the Audit Committee in May 2012.
- 30) The Chief Internal Auditor's annual report presented to the Audit Committee in September 2012 contained a summary of Counter Fraud activity during 2011/12.
- 31) A "Protecting the Public Purse" report is on the agenda for the Audit Committee (April 2013) which summaries the National fraud activity identified by the Audit Commission survey, the number of investigations within the authority in 2011/12 and highlights the actions taken to mitigate potential fraud in order to give assurance to the Audit Committee.
- 32) Fraud awareness training has been provided across the Council and to Sheffield Homes. An E- Learning package has been developed and has been made available through the learning pool system.
- 33) Individual incidents of a material scale will continue to be reported to the Audit Committee by Internal Audit.
- 34) The Audit Committee can call in officers to respond to issues raised by the Audit Commission and/or Internal Audit.
- 35) A revised Fraud Response plan was agreed and made available via the Council's intranet in March 2012 to Members and staff. This document is primarily intended to act as a guide for managers who suspect that theft, fraud or corruption is occurring within the authority either via their own observations or via reports from an employee, contractor, partner or member of public.

- 36) The National Fraud Initiative (NFI) exercise for 2012/13 has taken place and work is on-going across areas of the Council to examine and investigate the output from the review.
- 37) Regular meetings now take place with Human Resources and representatives of Internal Audit where issues pertaining to fraud are raised and discussed.
- 38) Although considerable progress has been made in implementing fraud awareness across the council and the policies that underpin this, the process is still on-going. Key developments currently on-going are;
- A fraud risk management guide has been developed and made available on the intranet to aid managers in the identification and mitigation of fraud risk.
 - An anti-bribery policy has been developed.
 - The Authority has participated in a national pilot NFI data matching exercise involving Social Care Direct Payments. Work on the data match results will commence in April 2013.

Risk Management

- 39) A Corporate Risk Manager has been appointed (July 2012) to coordinate and drive Risk Management consistently across the Council.
- 40) The Corporate Risk Manager will present a report to the Audit Committee today (April 2013) on the risk management arrangements for the Council.
- 41) The Council's risk management framework has been made available on the intranet and training has been provided to all senior managers on its operation.
- 42) Risk reporting at a Corporate level has been strengthened and the Executive Management Team now receive quarterly Risk Management reports which focus on:
- The key transitional and longer term risks to delivery of the Council's strategic objectives and the effectiveness of the measures in place to deal with them.
 - An analysis of emerging national and local issues which are giving rise for concern and should be monitored closely as they may become risks.
- 43) It has been agreed that in future the Audit Committee will receive 6 monthly Risk Management reports to provide an update on the key issues

and enable challenge of the effectiveness of Risk Management processes and risk treatment actions.

- 44) In addition the need for greater member awareness and involvement in Risk Management has been identified. This will be achieved through facilitated Cabinet Members Team workshops and member briefings.
- 45) An improvement programme has been put in place through the establishment of a Council wide Risk Improvement & Development Group to achieve greater consistency in the way that risks are managed across the authority and to promote greater ownership and engagement with risk management processes.
- 46) As part of the improvement process:
- A quality assurance assessment of Children and Young Peoples Families risk information has been carried out and recommendations for improvement made. This pilot is to be rolled out to other Portfolios.
 - Development of a Risk Management module for inclusion in the Core Manager Development Programme is underway.
 - The business case for a single risk management platform which links with the Council's existing Performance Management system is being assessed.

Recommendation

- 47) Members are asked to confirm that the above report gives an accurate reflection of the reports that they have received and considered throughout the year. Members are also asked to confirm that they now have a significant 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 Internal Auditing Standards.

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