

SHEFFIELD CITY COUNCIL

REPORT TO AUDIT COMMITTEE

DATE
10 April 2014

REPORT OF Assistant Director Finance – Business Partnering and Internal Audit **ITEM**

SUBJECT Internal Audit Plan 2014/15

SUMMARY The report presents the Internal Audit Planning Strategy and programme of work for 2014/15.

RECOMMENDATIONS In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice (including CPA requirements) it is recommended that Members endorse the attached programme of work for 2014/15.

FINANCIAL IMPLICATIONS CLEARED BY	No K Inman	PARAGRAPHS 33
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BACKGROUND PAPERS

<u>CONTACT POINT FOR ACCESS</u>	K Inman	TEL NO. 273 4435
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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

REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE
10th April 2014 - DRAFT

Assistant Director Finance (Business Partnering Communities & Internal Audit) Report – 2014/15 Audit Strategy and Work Programme

Purpose of the Report

1. The purpose of this report is to present and communicate to members of the Audit Committee the Internal Audit plan and strategy for 2014/15.

Background

2. A new approach for the audit planning process was introduced for 2012/13, and subsequently presented to the Audit Committee in May 2012. The strategy for Internal Audit work was to focus on specific areas of activity which could provide assurance that risk and internal control in the main corporate systems were being properly managed by Directors in service areas.
3. Throughout 2012/13 and 2013/14, internal audit have taken assurance, based on a significant number of reviews in these areas having a low or medium/low audit opinion, that these processes are operating satisfactorily. This has then helped to inform the planning process for 2014/15.
4. During the financial year 2012/13 and again in 2013/14 there was a decrease in the number of benefit fraud referrals received by Internal Audit. The prime reason for this was an agreed reduction in the processing of Department of Work and Pensions data matching referrals (Housing Benefit Matching Service) received by the Capita counter fraud team.
5. An additional observation in 2013/14 was a significant increase in the volume of unplanned work requested from Internal Audit.

Audit Strategy

6. In order to plan for the use of Internal Audits' resources, the strategy has been structured around the following:
 - More utilisation of the Corporate Risk Management process including the Corporate Risk Register and Portfolio Risk Management Plans.
 - More utilisation of the information provided by Directors under the Annual Governance Statement (AGS) process.
 - Risk based reviews in areas of highest perceived risk as determined by the Chief Executive/Executive Management Team (EMT)/Executive Director - Resources/Director of Finance/Assistant Director Finance (Business Partnering Communities & Internal Audit) /Senior Finance Manager/ Finance Managers.
 - A reduction around the Main Corporate Systems to complete the cyclical nature of reviews in this area i.e. Internal Audit of Projects, Programmes and Partnership arrangements.

- An allocation of resource to cover fraud, theft and corruption allegations (re-active investigations).
 - Pro-active counter fraud work.
 - Main Financial Systems (MFS) work.
 - Continued use of Salford for the delivery of the more technical aspects of the IT audit plan.
7. The format of the tactical plan for 2014/15 has also been altered to include additional information about the scope of audit reviews. It also identifies whether the auditable area is present in either the portfolio or corporate risk register and whether there are any AGS concerns raised.
8. We have also distinguished between the different types of audit such as corporate reviews (same audit completed in each portfolio), strategic reviews (single topic/theme that impacts on multiple services/portfolios), Compliance audits and Risk Based Audit.

Utilisation of the Corporate Risk Management Arrangements

9. The current risk management process requires service areas to consider risks and either manage and mitigate risks or escalate them up through a process to leadership teams and/or EMT. The information contained within the Corporate Risk Register and Portfolio Service Risk Management Plans provide a broad range of risks facing the Council and identifies risk controls, costs, escalation process etc. A number of the higher risk rating entries on the registers/risk management plans have been included in the audit plan.

Utilisation of the Annual Governance Statement

10. The process for collating information for the production of the AGS was established by Internal Audit and is now being managed by Legal and Governance. The information which Directors submit and sign up to provides a wealth of information on how some of the most important internal control arrangements are managed within services. Audit Managers review this information when identifying areas for the audit plan.

Main Corporate Systems

11. During 2012/13 Internal Audit introduced more in depth and detailed testing of Main Corporate Systems, these systems were:
- AGS
 - Risk Management Arrangements
 - Performance Management Framework
 - Project and Programme Management
 - Partnerships and Contracts

12. Given the outcome of the audits conducted in 2012/13, it was agreed to review portfolio compliance on a cyclical basis. In 2014/15 a residual resource is dedicated to completing this cycle of audits. Assurance has been taken that these areas are by and large, operating satisfactorily and this has been used to inform other areas of the plan (as detailed above).

Fraud Allegations (Re-active investigations)

13. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft and corruption. During 2013/14 the number of Housing/Council Tax benefit allegations received by Internal Audit has decreased due to an agreed reduction in the processing of allegations by Capita. Consequently the time allocated for this type of work during 2014/15 has been reduced. Nevertheless, in the event that the volume of allegations increases or a large scale investigation becomes necessary, resources will be transferred from other areas of the Internal Audit plan.

14. As anticipated, during 2013/14 we have seen a considerable upturn in reported irregularities due to a number of factors such as:

- Changes of personnel and reporting lines leading to discovery
- Squeezed budgets giving fraudsters less room to manoeuvre
- Reduced levels of internal control as managers seek to manage with fewer resources.

15. The nature of this type of work tends to require more input from audit management.

Pro-active Counter Fraud Work

16. Despite the changes introduced for external audit and the role of the Audit Commission, the National Fraud Initiative (NFI) element of the Commissions work will continue (probably under the auspices of the National Audit Office). This element of work has grown in recent years and will probably continue to expand and is no longer exclusively focused on Housing Benefit fraud, new areas of scrutiny continue to be added e.g. most recently tenancy fraud and abuse of the blue badge scheme.

17. In addition to the above externally generated work, in recent years Internal Audit have included a number of exercises in the plan directed primarily at consideration of the specific risk of fraud in an area of activity, for example employee expenses, grants and fuel management. These exercises have been successful in identifying irregularities and weak/inconsistent controls and management arrangements. During recent years Internal Audit has provided fraud awareness presentations to employees to improve defences against fraud. An e-learning course was been developed and made available to replace face to face training and this will be refreshed in 2014/15.

Main Financial Systems (MFS)

18. Internal Audit have for a number of years tried to reduce the time devoted to MFS work, however it is unlikely that this could be reduced further and we may come under pressure to increase this work at the behest of external audit. External Audit place reliance on the soundness of the MFS and assurance from the work of Internal Audit on these systems. Any work undertaken on the MFS by external audit is likely to be in the region of double the price of Internal Audit on a day rate basis.
19. Key Financial Systems have been selected for the 2014/15 audit plan, including a number of follow up reviews. In addition to this, a number of reviews relating to General Ledger systems have also been included within the Resources Portfolio plan. This will assist External Audit, who has confirmed that they will be focusing on these areas for future years. The Director of Finance believes this aspect of the work of Internal Audit to be crucial in supporting the S151 officer responsibilities.

ICT

20. The partnership for technical ICT support was re-tendered in 2013/14, and the successful bidder was Salford, who we have worked with Internal Audit for a number of years. They will be delivering 3 of the more technical audits on the audit plan for 2014/15, using their ICT knowledge and expertise.

Risk Based Audits of Systems/Services/Functions

21. The resource not utilised on the above elements is devoted to undertaking reviews of the areas of most perceived risk as identified by Internal Audit in consultation with key officers i.e. principally the Executive Director - Resources/Director of Finance/Chief Executive plus Executive Directors and Directors. The basis of the planning discussions were not a fully risk scored audit universe but more reliant on perceived areas of risk and emerging issues.
22. At the beginning of each audit assignment the relevant service manager will also be consulted to ensure that current risk areas are included in the remit for the work.

Summary of the Audit Plan

24. The following represents the summary of the planned audit time for the current year.

Auditable Area	Days
Corporate Reviews	174
Communities	450
Main Financial Systems	108
Main Corporate Systems	113
Children, Young People and Families (CYPF)	304
Place	169
Resources and ICT	371
Investigations and Benefits	229
Total	1918
High Priority	1296
Medium Priority	569
Low Priority	30
Statutory	23
Total	1918

25. In order to complete the above plan, a matrix approach to resource management will be employed whereby each auditor will be directly line-managed by a named Finance Manager, but they will be required to conduct audits across a range of areas. The added benefit with this approach is to broaden the expertise of the auditors, who generally specialised in specific portfolios.

26. It should be noted that the above total does not balance exactly to the resources available. In addition, it will be significantly affected by any unplanned work requests. In the event that these materialise, we will need to re-prioritise our work programme to ensure that key risk areas are still covered.

27. The 2014/15 annual plan is attached at Appendix 1.

Future Considerations

28. Throughout the coming year, Internal Audit will evaluate the plan to ensure we are directing internal audit resources at the main risks facing the authority.
29. Given that the operating environment of the Council is changing rapidly, it has been agreed that the planning process needs to be much more flexible and responsive than in previous years. Internal Audit will ensure that key officers are able to suggest areas for review at any time rather than at a fixed planning stage. This approach will potentially involve a greater level of management liaison with senior officers throughout the year.

FINANCIAL IMPLICATIONS

30. There are no direct financial implications arising from the report.

EQUAL OPPORTUNITIES IMPLICATIONS

31. There are no equal opportunities implications arising from the report.

CONCLUSION

32. The audit plan summarises a risk based programme of work which demonstrates that the Council has made provision to discharge its (and officers) statutory responsibilities.

RECOMMENDATION

33. In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice it is recommended that Members endorse the attached programme of work for 2014/15.

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