



SHEFFIELD CITY COUNCIL

Chief Executive's Directorate

REPORT TO AUDIT COMMITTEE

DATE

14th April 2016

REPORT OF

Senior Finance Manager, Internal Audit

ITEM

SUBJECT

Internal Audit Plan 2016/17

SUMMARY

The report presents the Internal Audit planning methodology and programme of work for 2016/17.

RECOMMENDATIONS

In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice (including PSIAS Standards) it is recommended that Members endorse the attached programme of work for 2016/17.

**FINANCIAL IMPLICATIONS
CLEARED BY**

No
K Inman

**PARAGRAPHS
31**

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

K Inman

TEL NO.

273 4435

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

14th April 2016

Director Finance Report – 2016/17 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 for 2016/17.

Background

2. The strategy for Internal Audit work is to focus on areas of high-risk activity in order to provide assurance that risk and internal control systems are being properly managed by Directors in service areas.
3. The basis of the planning process was not a fully risk scored audit universe but was more reliant on perceived areas of risk and emerging issues. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.

Planning Methodology

4. In order to plan for the use of Internal Audits' resources, the approach is structured around the following:
 - Utilisation of the corporate risk management process including the corporate risk register and portfolio risk management plans.
 - Utilisation of the information provided by Directors under the Annual Governance Statement (AGS) process.
 - Areas of highest perceived risk as determined by the Chief Executive/Executive Management Team (EMT)/Executive Director - Resources/Director of Finance/Assistant Directors of Finance /Senior Finance Managers/ Finance Managers.
 - An allocation of resource to cover fraud, theft and corruption allegations (re-active investigations).
 - Pro-active counter fraud work.
 - Main financial systems (MFS) work.
5. The format of the tactical plan was revised in 2014/15 and this was positively received by Audit Committee members. This format has been adopted again for 2016/17 and includes additional information about the scope of audit reviews, whether the auditable area is present in either the portfolio or corporate risk register and whether there are any AGS concerns raised.

6. We have also distinguished between the different types of audit such as corporate reviews, risk-based audits, compliance audits and other work such as grant sign-offs.

Utilisation of the Corporate Risk Management Arrangements

7. 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. In addition, Internal Audit will perform a review of the risk management process to provide assurance that it operates effectively.

Utilisation of the Annual Governance Statement

8. The process for collating information for the production of the AGS is 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. Internal Audit will perform a review of the annual governance statement process to provide assurance that it operates effectively.

Fraud Allegations (Re-active investigations)

9. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft and corruption. From Feb 2015, the Single Fraud Investigation Service was formally established and all benefit fraud cases are now investigated by this central government service, rather than by SCC. Throughout 15/16 it became apparent that a number of benefit related frauds were not being considered by the SFIS, such as council tax or housing benefit where these were not linked to wider DWP benefit frauds. These cases are passed back to SCC to deal with under administration processes.
10. For 16/17, Internal Audit are planning to review such areas as part of the proactive counter fraud resource allocation, and this may subsequently lead to more specific case investigations. Flexibility is therefore required in the use of the fraud investigation resource. Nevertheless, in the event that the volume of fraud allegations increases or a large scale investigation becomes necessary, resources will be transferred from other areas of the internal audit plan.

Pro-active Counter Fraud Work

11. Despite the changes introduced for external audit and the role of the Audit Commission, the National Fraud Initiative (NFI) element of the Commission's work continues under the remit of the Cabinet 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, as new areas of scrutiny continue to be added e.g. most recently tenancy fraud and abuse of the blue badge scheme.
12. 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. Four such reviews have been included in this year's tactical plan.
13. During recent years Internal Audit has provided fraud awareness presentations to employees to improve defences against fraud. In 2016/17 the e-learning course will be refreshed and added to the Sheffield Development Hub.

Main Financial Systems (MFS)

14. 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 take assurance from the work of Internal Audit on these systems.
15. Key financial systems have been selected for the 2016/17 audit plan, including a number of follow up reviews. In addition to this, reviews relating to general ledger reconciliation processes have also been included within the Resources Portfolio plan. The Director of Finance believes this aspect of the work of Internal Audit to be crucial in supporting the S151 officer responsibilities.

ICT (BCIS)

16. The partnership for technical ICT support will not be renewed for 2016/17 due in part, to the significant changes being undertaken with regards to ICT systems. Consideration will be given to retendering for this support from 2017/18

onwards. The in-house expertise is believed to be sufficient to cover the ICT audits included in the 16/17 plan.

Risk Based Audits of Systems/Services/Functions

17. 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 was not a fully risk scored audit universe but was more reliant on perceived areas of risk and emerging issues.
18. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.
19. 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

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

Auditable Area	Days	No of Outputs
Corporate Reviews	79	5
Communities	406	32
Children, Young People and Families (CYPF)	291	33
Place	274	22
Resources	294	23
BCIS	123	10
Main Financial Systems	118	7
Investigations and Benefits (*exc reactive allocation)	191	7*
Total	1776	139

Assessed Priority	Days
High Priority	1473
Medium Priority	221
Low Priority	7
Statutory	75
Total	1776

23. It should be noted that the above 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.
24. Attention is also drawn to the first call list (last page of the plan), which highlights the reviews identified during the planning process which cannot be completed due to a short-fall in internal audit resources. Every effort has been made to add medium priority reviews to the first call list, and maintain all the high priority reviews in the plan, however there are still 6 high priority reviews on first call (4% of the total output). These will be the priority to be completed in the event that planned reviews are deferred, and any that are not completed will be automatically included in the 17/18 plan.
25. The 2016/17 annual plan is attached at Appendix 1.

Future Considerations

26. 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.
27. 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. 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

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

EQUAL OPPORTUNITIES IMPLICATIONS

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

CONCLUSION

30. 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

31. 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 2016/17.

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