



## Audit and Standards Committee Report

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**Report of:** Kayleigh Inman, Senior Finance Manager (Internal Audit)

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**Date:** 27<sup>th</sup> April 2017

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**Subject:** Internal Audit Tactical Plan 2017/18

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**Author of Report:** Kayleigh Inman

### Summary:

The report presents the Internal Audit planning methodology and programme of work for 2017/18.

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### 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 2017/18.

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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>
No Cleared by: Kayleigh Inman
<b>Legal Implications</b>
NO Cleared by:
<b>Equality of Opportunity Implications</b>
NO Cleared by:
<b>Tackling Health Inequalities Implications</b>
NO
<b>Human rights Implications</b>
NO:
<b>Environmental and Sustainability implications</b>
NO
<b>Economic impact</b>
NO
<b>Community safety implications</b>
NO
<b>Human resources implications</b>
NO
<b>Property implications</b>
NO
<b>Area(s) affected</b>
Corporate
<b>Relevant Scrutiny Committee if decision called in</b>
Not applicable
<b>Is the item a matter which is reserved for approval by the City Council?</b>
NO
<b>Press release</b>
NO

# REPORT TO SHEFFIELD CITY COUNCIL AUDIT AND STANDARDS COMMITTEE 27<sup>th</sup> April 2017

## Senior Finance Manager Report – 2017/18 Work Programme

### Purpose of the Report

1. The purpose of this report is to present and communicate to members of the Audit and Standards Committee the internal audit plan for 2017/18.

### 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. For 2017/18, a risk scoring approach has been implemented in order to prioritise the identified auditable areas. The use of a risk-scoring methodology is a requirement of the Public Sector Internal Audit Standard.
4. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.

### Planning Methodology

5. In order to plan for the use of Internal Audit's resources, the approach is structured to give consideration to 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 and Commercial Services/Heads of Service within Finance /Senior Finance Managers/ Finance Managers.
  - The outcomes from the internal audit risk-scoring methodology.
  - An allocation of resource to cover fraud, theft and corruption allegations (re-active investigations).
  - Pro-active counter fraud work.
  - Required main financial systems (MFS) work.
  - Liaison with and learning from other Core Cities and more general best professional practice.

6. The format of the tactical plan remains the same as last year, however additional information has been added to link the plan clearly to the themes contained within the Annual Governance Statement. Each auditable area has been reviewed to determine which themes from the AGS will be covered within the scope. More than one theme may be included within the scope of a single audit.
7. The table on page 2 of Appendix 2 outlines the results of this analysis. All AGS themes are covered to varying degrees and this will help to support the internal audit opinion on the control environment which is provided to the Audit and Standards Committee annually in September.
8. In addition, given the current restructuring of the Council's Portfolios, each service block has been identified separately to provide flexibility to Internal Audit in allocating work blocks within the team. As an example, Communities and Housing have been separated for the purpose of this years' plan.

#### **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. 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**

10. The process for collating information for the production of the AGS is managed by Legal and Governance. The information to which Directors submit and sign up provides a wealth of information on how some of the most important internal control arrangements are managed within services. Finance Managers (Internal Audit) review this information when identifying areas for the audit plan. In addition Internal Audit will perform a review of the annual governance statement process to provide assurance that it operates effectively.

#### **Fraud Allegations (Re-active investigations)**

11. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft and corruption. Some investigations are carried out directly by Internal Audit and for others Internal Audit provides support to management for them to carry out their own reviews.
12. The Single Fraud Investigation Service (SFIS) was formally established in 2015 and all benefit fraud cases are now investigated by this central government service, rather than by SCC.

### **Pro-active Counter Fraud Work**

13. 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. It 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.
14. Internal Audit continues to administer the system and oversee the submission of data for the NFI. 2017/18 is an NFI output year, and so Internal Audit will be coordinating the responses to Cabinet Office in relation to the NFI data matching exercise, testing the adequacy of the responses provided by service, and will be undertaking some in-house work on a sample of the data matches.
15. In addition to the above externally generated work, for 17/18, Internal Audit has four pieces of proactive fraud work planned. These reviews look at activities that are more susceptible, by the nature of what they encompass, to fraud. Internal Audit exam each activity's overall fraud risks to ensure that all of the areas of fraud have been identified. These exercises have been successful in identifying irregularities and weak/inconsistent controls and management arrangements. The work on proactive fraud 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.
16. In 2016/17 the fraud awareness e-learning course was refreshed and this will be launched and added to the Sheffield Development Hub in the early part of 2017/18.

## **Main Financial Systems (MFS)**

17. Internal Audit reviews the key financial systems of the Council every year, and the Head of Strategic Finance believes this aspect of the work of Internal Audit to be crucial in supporting the S151 officer responsibilities. External Audit place reliance on the soundness of the MFS and will take assurance from the work undertaken by Internal Audit.

## **ICT (BCIS)**

18. As in 2016/17, the partnership for technical ICT support will not be renewed for 2017/18 due in part, to the significant changes being undertaken with regards to ICT systems. Consideration will be given to retendering for this support from 2018/19 onwards when a number of new key systems should be operational. In-house expertise is believed to be sufficient to cover the ICT audits included in the 17/18 plan.

## **Risk Based Audits of Systems/Services/Functions in each Portfolio**

19. 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 and Commercial /Executive Directors and Directors.
20. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.
21. New for 2017/18, Internal Audit has introduced a risk scoring methodology to prioritise the areas identified throughout the planning process. The approach involves assessing some key criteria such as statutory requirements, the impact of service failure, size of budget, budget position and approach to risk management. The template for the approach is attached at appendix 1.
22. The resulting analysis calculates a score for that particular auditable area, with the maximum score possible of 1000. The plan has then been defined to include all areas with a score of 500+. The use of a risk-scoring methodology is a requirement of the Public Sector Internal Audit Standard.
23. 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.

<b>Auditable Area</b>	<b>Days</b>	<b>No of Outputs</b>
Corporate Reviews (incl AGS, Risk Management)	114	8
Place	198	17
Housing (includes 72 days for Social Care Accounts Service)	220	13
Children, Young People and Families (CYPF)	246	25
Communities	116	12
Resources	222	14
ICT (BCIS)	160	9
Main Financial Systems	156	10
Investigations, Proactive Fraud and Benefits (*excl reactive allocation)	213	8
<b>Total</b>	<b>1645</b>	<b>116</b>

<b>Assessed Priority</b>	<b>Outputs</b>
High Priority	80
Medium Priority	27
Low Priority	1*
Statutory	8
<b>Total</b>	<b>116</b>

\*Schools' annual report which combines the themed reviews into a composite report for all maintained schools.

25. It should be noted that in previous years the Housing Service has been a part of the Communities portfolio and so the total number of days dedicated to this area would have appeared higher. Until the finer detailer

of the portfolio restructure is known, and the plan can be re-organised, it was deemed most appropriate to identify each area separately. There are still some reviews included in the Housing block that relate to Social Care Accounts Service (SCAS).

26. Whilst the above plan is currently achievable with the level of resource available, 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.
27. 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 in 2017/18. Every effort has been made to add medium priority reviews (scoring less than 500) to the first call list, and maintain all the high priority reviews in the plan. There are 9 high priority reviews on first call however, for all of these there are service-based reasons why an audit review cannot be undertaken in 17/18.
28. The first call list is effectively the 18 month audit plan, as reviews included on first call will be included for review in the early part of 18/19, assuming they are still relevant.
29. The 2017/18 annual plan is attached at Appendix 2.

### **Future Considerations**

30. 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.
31. 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.
32. It is recommended in the Public Sector Internal Audit Standards that any significant changes to the plan are also reported to the Audit and Standards Committee. As a result, Internal Audit have defined 'significant' as a 15% change to the audits ratified in the April 2017 meeting, and in the event of this level of change, will report to the September or November Committee (subject to meeting timetabling).



### **FINANCIAL IMPLICATIONS**

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

### **EQUAL OPPORTUNITIES IMPLICATIONS**

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

### **CONCLUSION**

35. 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**

36. 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 2017/18.

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