



Audit and Standards Committee Report

REPORT OF	Senior Finance Manager (Internal Audit)	DATE 14/9/2017
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SUBJECT	Internal Audit Annual Report 2016/17	
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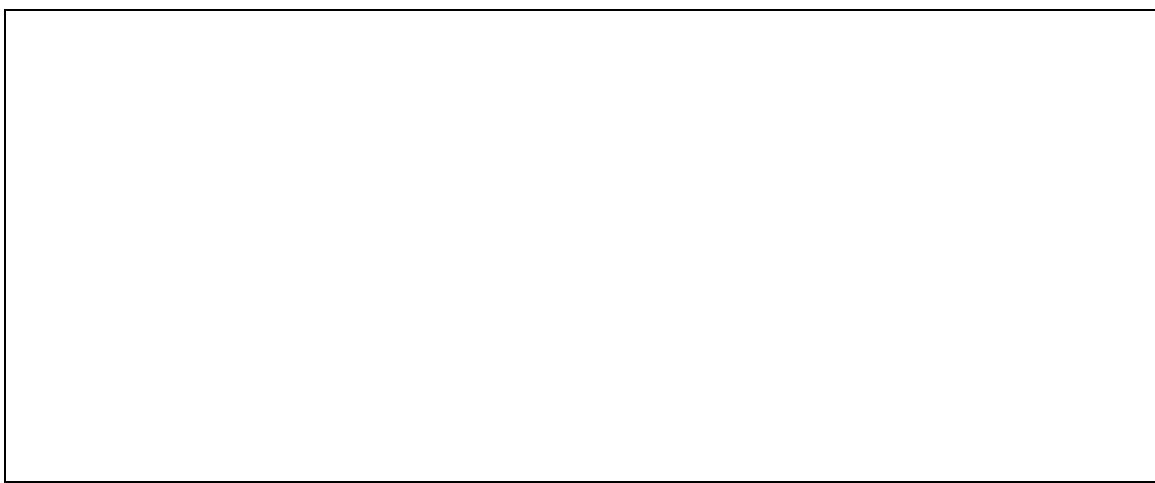
SUMMARY	The purpose of this annual Internal Audit report to Members is to highlight the work that has been undertaken by Internal Audit during the year and supports the Council's Annual Governance Statement (AGS).	
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RECOMMENDATIONS	That the Audit and Standards Committee notes the content of the report and the opinion of the Chief Audit Executive (Senior Finance Manager).	
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FINANCIAL IMPLICATIONS CLEARED BY	No K Inman	PARAGRAPHS
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BACKGROUND PAPERS		
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CONTACT POINT FOR ACCESS	Kayleigh Inman	TEL NO. 273 4435
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**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: K Inman
Legal implications
YES /NO
Equality of Opportunity implications
YES /NO
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
Relevant Scrutiny Committee if decision called in
Not applicable
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 AND STANDARDS COMMITTEE

14th September 2017

Purpose of the Report

1. The purpose of this annual report to Members is to highlight the work that has been undertaken by Internal Audit during the year and supports the Council's Annual Governance Statement (AGS). The report provides a review of the performance of Internal Audit for the year 2016/17 and gives an opinion on the adequacy of the Council's system of internal control.

Introduction

2. It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that an annual report is produced on the work undertaken by the Internal Audit section. This report has been prepared by the Council's Senior Finance Manager (Internal Audit).
3. It is not the intention of this report to give a detailed summary of every audit that has been undertaken during the previous year, rather to give a broad review of the control arrangements.
4. The Executive Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services and Internal Audit assesses the adequacy of these arrangements. Internal Audit provides analyses, appraisals, recommendations, and advice concerning the activities reviewed.

Executive Summary of Audit Opinion

5. From the work undertaken by Internal Audit during the year (2016/17), as Senior Finance Manager, I am satisfied that the core systems include control arrangements which are currently adequate to allow the council to conduct its business appropriately.
6. The Council's Annual Governance Statement (AGS) previously circulated to the Audit and Standards Committee (July 2017) includes no areas of significant control weakness.
7. Internal Audit has investigated or assisted service managers to investigate other allegations of irregularity and associated disciplinary procedures throughout council services (refer to para 44-45 for further details).
8. Internal Audit carried out planned pro-active initiatives in areas of perceived high fraud risk to seek assurance that the selected processes contained robust counter fraud controls and made recommendations where vulnerability was identified.

9. The internal audit service co-ordinated the data review of data matches received from the Cabinet Office as part of the biennial National Fraud Initiative (NFI).
10. A detailed annual report on fraud and investigations was presented to the Audit and Standards Committee in July 2017.
11. A total of 14 audit assignments (compared to 13 for 2015/16) were given an audit opinion of high risk of failing to deliver objectives, and these have been reported to the Audit and Standards Committee. These audits will/have been subject to follow-up reviews to assess progress implementing agreed recommendations, and the outcomes of follow-up work are also reported to the Audit and Standards Committee via the high opinion recommendation tracker.
12. From the routine planned internal audit work undertaken and reported upon during 2016/17, management's response to control issues arising from individual reviews has been very positive overall, with actions to further enhance controls being agreed and formally accepted.
13. Implementation of agreed recommendations has generally improved during 2016/17. Follow-up work undertaken as part of progress monitoring for the Audit and Standards Committee highlighted that only 1% of recommendations followed up at July 2016 were still outstanding.
14. Assurance has been taken from the certification of internal control completed by Directors of Service under the AGS arrangements. Legal Services co-ordinated the compilation of the AGS on behalf of the Council whilst ensuring that responsibility for items included within the statement lies with the senior management of the Council.
15. As the Senior Finance Manager (Internal Audit) I am not aware of any other significant control weaknesses that have not been included within the Council's Annual Governance Statement.

Legislation Surrounding Internal Audit

16. Internal Audit is an independent appraisal function within the Council. The Internal Audit section is an integral part of the Finance Service, which contributes to satisfying the Executive Director – Resources' statutory responsibilities. There are two principal pieces of legislation that impact upon Internal Audit in local authorities, these are:
 - Section 151 of the Local Government Act 1972 requires that "every local authority ... make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs". The Council has designated the Executive Director - Resources as the Responsible Financial Officer in relation to this section and one of the ways he exercises responsibility for financial administration is through the work of Internal Audit.

- Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2006 (last updated 2011), which state in respect of Internal Audit that:

“A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices”.

Professional Requirements

17. In addition to legislation, Internal Audit is governed by policies, procedures, rules and regulations established by Sheffield City Council (the council). These include the Council's constitution, financial regulations, standing orders, and conditions of service, codes of conduct for members and officers and other procedural rules.
18. The Internal Audit section also has to meet the standards laid down by professional bodies such as the CIPFA and Chartered Institute of Internal Auditors (CIIA).
19. The PSIAS came into force on 1 April 2013, and replaced the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom*, 2006. The PSIAS include key principles that public sector internal audit functions must follow and cover a range of areas including governance, performance standards and reporting requirements. As part of the standards, Internal Audit is required to undertake annual self-assessments.
20. One area where Internal Audit differs from the PSIAS is that there is an expectation that the 'chief audit executive' (CAE) will report directly to a member of the management board (EMT).
21. At present the Senior Finance Manager (SFM) reports to the Head of Finance, who reports to the Director of Finance and Commercial Services, who subsequently reports to the S151 Officer (Executive Director – Resources). This point has previously been brought to the attention of the Audit and Standards Committee. The SFM does have unrestricted access to other senior officers, including the Chief Executive and to the members of the Audit and Standards Committee, where required.
22. The PSIAS also introduced a requirement for an external assessment of an organisation's Internal Audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. We have undertaken 'peer reviews' within the core cities chief auditors group for the independent external assessments, and Leeds City Council Auditors conducted our PSIAS 'peer review' for 2016/17. The audit report and opinion was presented to the Audit and Standards Committee in April 2017, along with the revised Internal Audit Charter.

23. The opinion provided was that we 'generally conform' which means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. This is the highest assessment opinion that can be given.
24. Of the 349 questions within the PSIAS Local Government Application Note, the Internal Audit Service fully conforms in 311 areas, partially conforms in 28 areas and does not conform in 10 areas. In common with other core cities assessments, most of the areas of non-conformance are generally acceptable practice.
25. The Quality Assurance and Improvement Programme is included at Appendix A, which includes details in relation to both internal and external assessments.

Review by External Audit

26. External Audit continues to place some reliance on the work of Internal Audit for the purpose of certifying the Council's published financial statement. External audit assesses the adequacy of any work undertaken by Internal Audit on which they place reliance.
27. Internal Audit have quarterly 'liaison' meetings with external audit representatives to discuss and share work programmes, progress of work and key findings and recommendations.

Internal Audit Resources

28. Internal Audit had an agreed budget for 2016/17 as outlined in the table below, which also summarises the end of year budget position.

2016/17	£	£	£
	Outturn	Budget	Variance
Total	494,318	524,900	(30,582)

29. The underspend for the financial year was a result of a number of officers acting up into temporary posts to support the implementation of a new finance system. Temporary vacancies are notoriously difficult to recruit to, and so agency appointments were engaged (see para 34).
30. Comparative statistics collated from the core cities' local authorities in the past, showed that for the relative size of the council, the cost of the audit function in Sheffield is one of the lowest.
31. The core cities comparison for 16/17 has yet to be finalised and these will be reported to the Audit and Standards Committee members when they are released.

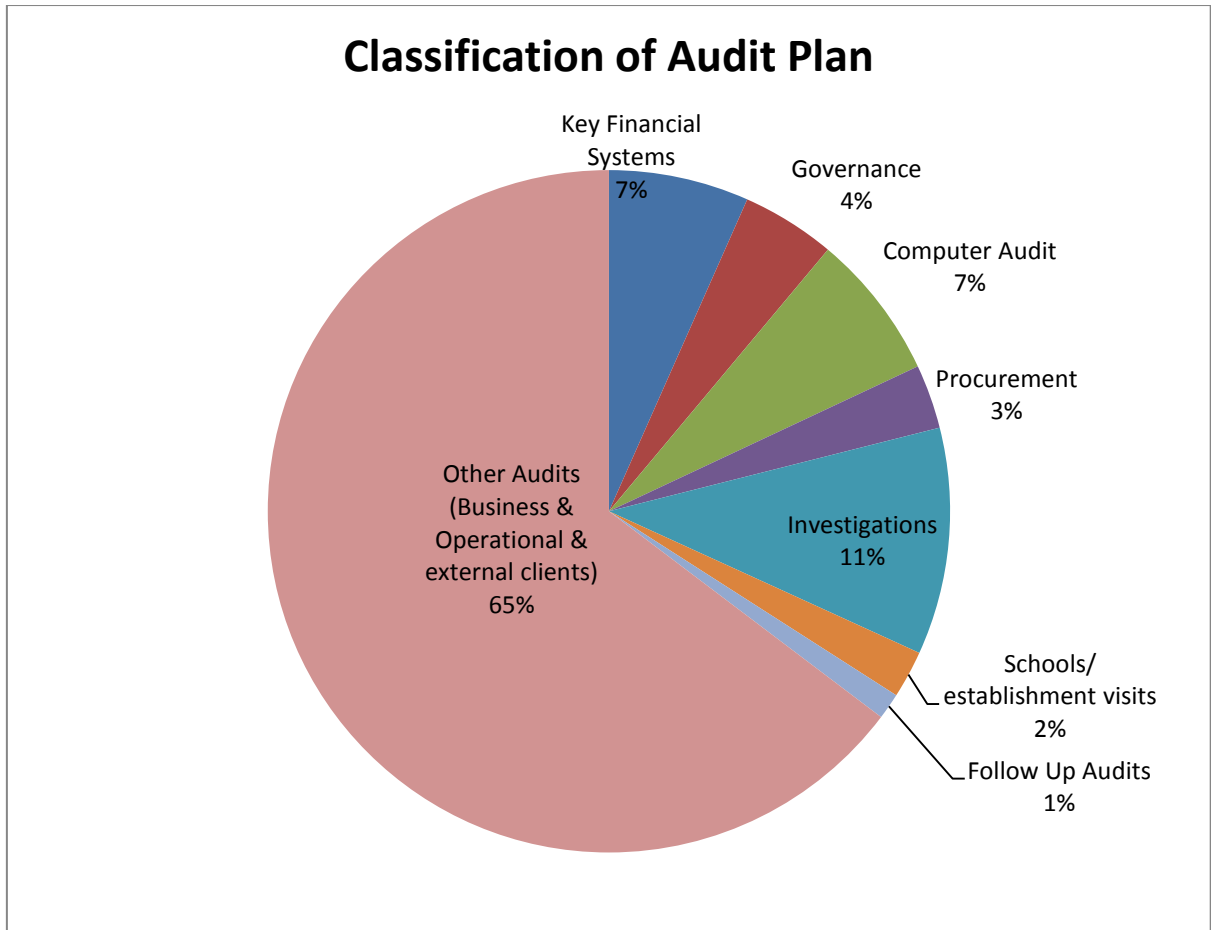
Structure

32. The Internal Audit structure has reduced significantly over the last 5 years to its current level of 10.98 FTE. This is considered to be the minimum level the authority can operate with in order to maintain an 'adequate service'.
33. The current structure of the section is shown in Appendix B to this report. It should be noted that within the third quarter of 2016/17, a Finance Officer went on maternity leave (0.80 FTE).
34. To help alleviate the pressure on the delivery of the audit plan an agency member of staff was appointed for 10 months (full time from April until July 2016 and then part time from Sept until March 2017). Their main focus was to help deliver the main financial systems audits. In addition, the service was assigned an additional CIPFA trainee for the period August until December to assist with maternity cover.
35. The Internal Audit section strives to maintain high professional standards by employing and training appropriately qualified staff who are members of or actively studying for professional qualifications. The majority of internal audit staff are either professionally qualified, or are actively studying for relevant qualifications. The section includes members of the Chartered Institute of Public Finance and Accountancy (CIPFA), Chartered Institute of Management Accountants (CIMA), Association of Chartered Certified Accountants (ACCA), Chartered Institute of Internal Auditors (CIIA), and Association of Accounting Technicians (AAT).

Planning Processes and Performance Monitoring

36. A report is submitted to the Audit and Standards Committee in April each year to outline how the annual plan is devised. 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.
37. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.
38. The audit plan is discussed with senior managers and ultimately agreed with the Executive Director - Resources.
39. It is anticipated that with a reduction in resources and an increase in demand in some service areas, that the risks faced by the Council in providing its services are likely to rise over the next few years. The plan is therefore subject to review and amendment during the year to allow the inclusion of any emerging relevant risk issues.

40. The 2016/17 original plan contained 139 reviews. At the mid-year point 23 reviews were deferred or deleted due to timing issues and/or other priority reviews being identified within portfolios. A further 17 new areas were added to the original plan during the year. The chart below illustrates the type and spread of audit work for 16/17.



41. The Internal Audit service uses a risk based approach to audit; this is now used almost exclusively for our reviews. This requires closer working with management to identify the risks inherent in the council's activities and then to test the controls that are in place to mitigate these.

42. Internal Audit moved to a 15 month model to measure the completion of the audit plan. This model assumes the completion of some audits in quarter 1 of the following year to allow for full coverage of the year being tested. The audit plan delivery for 2016/17 is as follows:

Audit Area	Original plan	Revised plan	Completed
Corporate	5	5	4
CYPF	33	34	33
Place	22	20	16
Communities	32	29	24
Resources & ICT	33	29	23
Main Financial Systems	7	7	7
Benefits	1	1	1
Pro-active Work & Reviews	6	8	9
Total (Planned Reviews)	139	133	117
Investigations			16
Total			133

43. A total of 117 reviews were completed out of a revised plan of 133 or 88%. Some reviews were deferred/deleted due to issues that only became apparent towards the end of the year after the plan had been agreed.
44. In addition, Internal Audit conducted 16 re-active investigations and assisted managers with a further 21 re-active investigations. These cases covered all areas of the Council from these false claims for services/benefits (blue badge applications) to theft and falsification of mileage claims. 10 of these cases related to the theft of, or from parking machines. This led to a number of dismissals and other appropriate sanctions. The Police were notified and involved where appropriate.
45. Internal Audit also co-ordinated the review and investigation of the data matches received from the Cabinet Office as part of the statutory biennial NFI (National Fraud Initiative). For 2016/17, the NFI has returned 14,244 data matches for the council, including 4,466 more significant recommended matches. So far the Council has managed to review 4,802 cases from the total data matches and closed these off.
46. As the Senior Finance Manager, I am satisfied that the coverage undertaken of the Council's activity by Internal Audit in the past year has been sufficient for me to be able to give an overall opinion on the Council's internal control system/environment.

Audit Reporting

47. Internal Audit reports are typically made up of a number of findings and recommendations. Dependent upon the nature of these findings, the recommendations are given one of four categories – critical, high, medium or efficiency/effectiveness.
48. All Internal Audit reports are then given an overall opinion as to the likelihood of the service/system under review being able to meet its objectives. There are four categories of opinion. These are:

- The risk of the activity not achieving its objectives is **high**. Internal Audit's overall opinion is that controls to manage the operational risks are not present or ineffective.
- The risk of the activity not achieving its objectives is **medium – high**. Internal Audit's overall opinion is that controls to manage the operational risks are inadequate or operating poorly.
- The risk of the activity not achieving its objectives is **medium – low**. Internal Audit's overall opinion is that the controls to manage the operational risks are mostly in place but there are some weaknesses in their operation.
- The risk of the activity not achieving its objectives is **low**. Internal Audit's overall opinion is that controls to manage the operational risks are in place and operating effectively.

49. The opinions relate to the system at the time of the review and do not take into account the effects of the agreed recommendations. Internal Audit follow-up on the recommendations made, in a process that increases in relation to the significance of the opinion.

50. To give an indication of the risk profile, for audits carried out following the standard risk based approach, results were:

High	14 reports
Medium High	28 reports
Medium Low	21 reports
Low	5 reports

51. In addition, Internal Audit undertook 23 pieces of productive work across the council that did not generate an opinion therefore do not appear in the breakdown above – for example grant work. Furthermore, 26 pieces of follow-up work were completed during 2016/17, which did not generate a revised audit opinion.

52. A summary of the key actions arising from the medium-high opinion audit reports are included in appendix D, as requested by members last year.

53. It should be noted that although the vast majority of recommendations made by Internal Audit are agreed by management, there are occasions where recommendations are not agreed. In such instances Internal Audit outline the potential risks. A judgement is drawn by management in Internal Audit and where the risk is significant this will always be escalated to senior management to ensure that they are aware of the decisions made. Ultimately non-agreement of recommendations can be reported to the Audit and Standards Committee to enable managers to justify their actions.

Reviewing the Service

54. Internal Audit is constantly striving to improve the service that it provides to the council. Listed below are the processes that the service undertakes to encourage improvement:

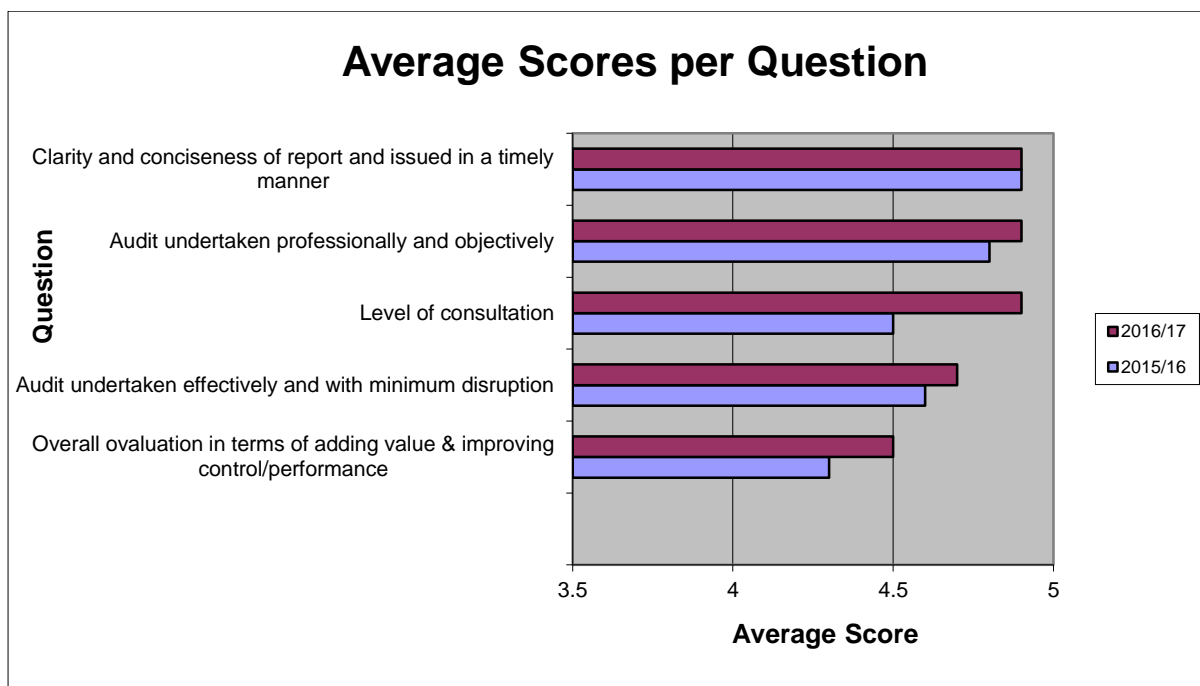
- Internal Audit work on the main financial systems is subject to some level of examination by the council's external auditors. They need to be assured that the service meets the standards required in order that they may place reliance on the work of Internal Audit for the final accounts audit.
- Internal Audit has a number of performance indicators which it uses to improve performance. The key targets are highlighted within the annual finance service plan and are shown below.
- All audit reports are issued with a standard questionnaire which requests client feedback on a number of aspects of the audit process including usefulness and conduct of the audit (see graph at para 57). The questions are analysed and used as part of the core cities comparisons.

55. The achievement of the performance targets is shown in the table below:

	2016/17 Target	2016/17 Achievement	2015/16 Achievement
PERFORMANCE TARGETS			
▪ Progress work to agreed work programme	90%	88%	88%
▪ Conduct a minimum of 4 pro-active fraud reviews	4	4	5
▪ Quality measures – average >85% scoring good or better on customer questionnaire (for details see graph overleaf).	85%	100%	100%

56. The figures above show we have sustained our 100% positive customer feedback questionnaires (25 questionnaires were returned in 2016/17).

57. Customer satisfaction questionnaires scores are seen to be excellent. Any low scores are followed up with the individual service managers and action is taken where appropriate to constantly strive to improve these. A blank copy of the full audit questionnaire is shown at Appendix C.



58. The individual scores for questions when compared with the previous year are higher and show improvements made by the section. In addition, the overall score is above target and Internal Audit will strive to maintain this position.

59. Internal Audit managers review the performance indicators on a quarterly basis and determine what action can be taken. The performance indicators are also discussed with all audit staff at service planning meetings, to help identify ways of improving service delivery and performance targets. They are also discussed during the Performance Development Reviews (PDR's) with individuals.

Chief Audit Executive's (Senior Finance Manager's) Opinion

60. The Council has a system of internal control designed to manage risk to a reasonable level. Internal controls cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

61. With an organisation as large and complex as the Council, some controls will inevitably fail or some risk will materialise which could not reasonably be foreseen.

62. From the work undertaken by Internal Audit during the year however, I am satisfied that the core systems include control arrangements which are adequate to allow the Council to conduct its business appropriately.

FINANCIAL IMPLICATIONS

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

EQUAL OPPORTUNITIES IMPLICATIONS

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

RECOMMENDATIONS

65. That the Audit and Standards Committee notes the content of the report and the opinion of the Senior Finance Manager.

Kayleigh Inman
Senior Finance Manager

**Sheffield City Council
Internal Audit
Quality Assurance and Improvement Programme**

Introduction

Internal Audits Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS), definition of internal auditing and code of ethics;
- Operates in an efficient and effective manner;
- Is adding value and continually improving internal audits' operation.

The Senior Finance Manager, Internal Audit, is ultimately responsible for the QAIP, which covers all types of internal audit activities. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least every 5 years.

Internal Assessments

Internal assessments are made up of both ongoing reviews and periodic reviews.

Ongoing Reviews

Ongoing assessments are conducted through:

- Supervision of each audit assignment
- Regular, documented review of working papers during assignments by appropriate internal audit staff;
- Review of procedures used for each assignment to ensure compliance with the applicable planning, fieldwork and reporting standards as outlined in the quality procedures manual;
- Feedback from customer surveys on individual assignments;
- Analysis of key KPI's established to improve internal audit effectiveness and efficiency;
- Review and approval of all high opinion draft and final reports by the Senior Finance Manager;
- Review and approval of all medium-high, medium-low and low opinion draft reports by the Finance Managers.

Periodic Reviews

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Standards, the Definition of Internal Auditing, the Code of Ethics and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. Period assessments will be conducted through:

- Quality audits undertaken on a scheduled basis for performance in accordance with Internal Audit's Quality Procedures Manual;
- Review of internal audit performance KPI's by the Audit Management Team on a quarterly basis;
- Quarterly performance reporting to the Director of Finance and Commercial Services and annual reporting to the Audit and Standards Committee;
- Annual benchmarking exercise with core city authorities on cost and productivity.
- Annual self-reviews of conformance with the Public Sector Internal Auditing Standards.

Any resultant action plans will be monitored by the Senior Finance Manager (Internal Audit) on a quarterly basis.

External Assessment

External assessments will appraise and express a judgement about Internal Audits' conformance with the standards, definition of internal auditing and include action for improvement, as appropriate.

An external assessment will be conducted every 5 years by a qualified, independent assessor from outside the council. The assessment will be in the form of a self-assessment with independent external validation. The format of the external assessment will be discussed with the Audit and Standards Committee.

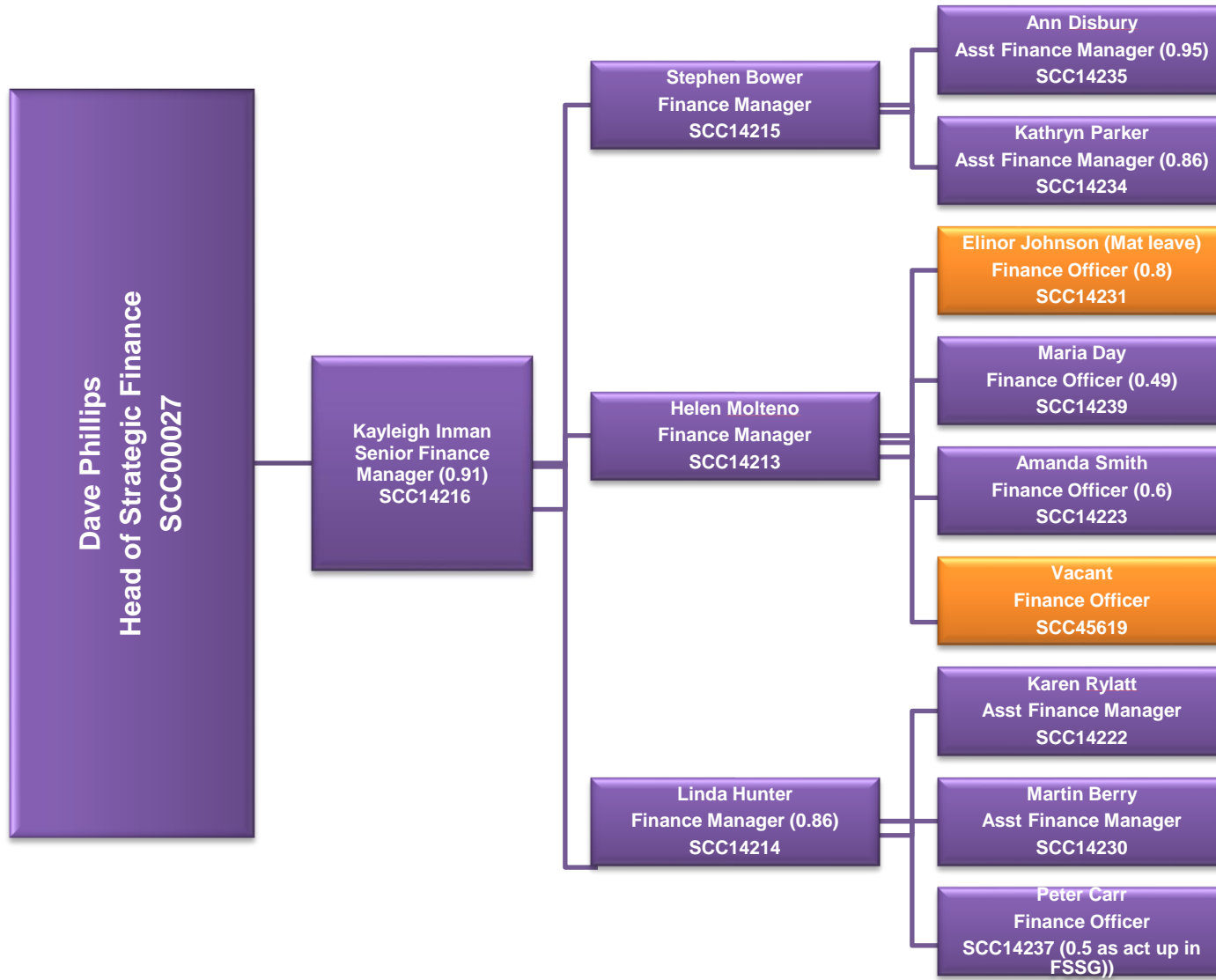
Reporting

Internal assessments – reports on performance will be made to the Audit and Standards Committee on an annual basis.

External assessments – results of external assessments will be reported to the Audit and Standards Committee and Section 151 Officer at the earliest opportunity following receipt of the external assessors report. The external assessment report will be accompanied by an action plan in response to any significant findings and recommendations contained in the report.

Follow-up – the Senior Finance Manager, Internal Audit will implement appropriate follow-up actions to ensure that recommendations made in the report and actions plans developed are implemented in a reasonable timeframe.

Updated July 2017



**INTERNAL AUDIT
POST AUDIT QUESTIONNAIRE**

Audit:

Portfolio:

Date of Issue:

Internal Audit is continuously looking at ways of improving the quality of service that we provide. Please could you complete this questionnaire to help us ensure that the service we provide is of the highest possible standard.

Evaluation

Please indicate a score of 1 - 5, with 1 being poor and 5 being good.

1. Overall evaluation of the audit in terms of added value to your business area and improving control / performance.	<input type="checkbox"/>
2. The level of consultation during the audit.	<input type="checkbox"/>
3. The audit was carried out effectively with minimum disruption.	<input type="checkbox"/>
4. The auditors were professional, objective and worked well with your team.	<input type="checkbox"/>
5. The final report was clear, concise, addressed the key issues and was issued in a timely manner.	<input type="checkbox"/>

Comments:

Form completed by:

Name: _____ Designation: _____

Signature: _____ Date: _____

Thank you for completing this questionnaire. Please return to:

Kayleigh Inman
Senior Finance Manager
Sheffield City Council
PO Box 1283
Town Hall
Sheffield S1 1UJ
Or Email to: Kayleigh.inman@sheffield.gov.uk

APPENDIX D

Summary of the key recommendations made in the medium-high opinion audit reports issued by Internal Audit during the 2016/17 financial year as requested by Audit and Standards Committee Members.

City Wide Alarms

High priority recommendations:

- Management to document what constitutes a 'service cost'
- Management to identify and calculate the service provision - including supply of equipment to registered social landlords and similar.
- Review the assumptions made in the Review of Charging for CWCA paper in light of the recent clarifying advice.
- Review and remodel the costs, charges and income target of the service.

Sheltered Housing

High priority recommendations:

- Implementation of real time monitoring
- Review of service charge

Review and Reassessment in Adult Services and Learning Disabilities (LD)

High priority recommendations:

- LD and Adults to consider increasing the review period over a 13 – 15 month period
- LD to consider options to reduce the backlog on reviews
- LD to improve their presence on the councils intranet; ensuring staff can be identified.

Safeguarding in Sheffield Health and Social Trust (SHST)

High priority recommendations:

- Management to ensure that there is a clearly named officer within SCC, who has safeguarding responsibilities and this to be included in the job description

Social Care Accounts Services – Unspent Direct Payments Reclaimed

High priority recommendations:

- Escalation policy and process of potential fraud/financial abuse
- Backlog of DP audits to be reviewed and addressed

Looked After Children (LAC) - Fostering

Executive summary

Controls to manage the operational risks were largely in place but further action is needed if the Fostering Service is to fully comply with its National Minimum Standards.

High priority recommendations:

- The Fostering Service Manager should update the Statement of Purpose annually, ensure that the Statement is reviewed and formally approved by Members and then published on the Intranet and the Council's external website.
- The budget and spend should be closely monitored towards the year-end.
- The 'Information about Payments to Foster Carers' document (which outlines the current payment rates) should be reviewed annually, submitted to Members/Lead Cabinet for approval and published on the Council's external website.
- The Fostering Service Manager should ensure that sundry debtor invoices are raised for overpayments of fostering fees and allowances, unless they are recoverable in the very short term.

Personalised Education Plans (PEP's)

Executive summary

The virtual school head (VSH) role has been a statutory responsibility since 2013. Since then the number of PEP's completed on time has increased from 30-93%. It should be noted that Internal Audit's opinion relates to an assessment of a random sample of 30 PEP's. It is acknowledged that the completion of these PEP's is the responsibility of the schools designated teacher and the child's social worker, however, the virtual school have agreed to take forward the recommendations contained within this report and therefore agreed actions and timeframes have been set with them. The virtual school will use this report to support further improvements in the quality of PEP's with schools designated teacher and social workers and help drive continued change and improvements. Positive steps and changes have already been made by the virtual school to improve the completion of the PEP's.

In line with our audit protocol this review has been assessed and independently verified and provided a medium-high audit opinion. A high opinion or medium-low opinion was not considered appropriate taking into account the findings and recommendations contained within this report (including an assessment of the residual risk levels and priority recommendation ratings).

High priority recommendations:

- Key critical fields, in particular the unique pupil number, pupil voice, targets and pupil premium details should be completed on all PEP's.

PEP's should be competed on a timely basis and regularly monitored.

Use of Consultants and Professional Services

Executive summary

Internal Audit's opinion is based on concerns raised against one of the six consultancy and professional services contracts reviewed as part of its testing sample as set out in the Audit Findings and Recommendations made in the report.

High priority recommendations:

- The Executive Director will carry out an investigation into the management of the Transport Capital Programme consultancy contracts to determine whether:
 - Invoice payments were valid for the services received;
 - Required outputs had been delivered;
 - The circumstances around the overspend and whether this warranted its extension;
 - Why the anticipated benefits remained outstanding.
- Contractors will not be given responsibility for establishing their own contract specifications.
- Consultants will not automatically be given responsibility for the implementation of recommendations arising from their own reviews.

Sickness Absence Monitoring

High priority recommendations:

- Sickness absence monitoring and reporting to be improved

Pro-Active Review – Right to Buy

Executive Summary

It is acknowledged that the Home Ownership Team (HOT) are experienced and aware of the weaknesses within the right to buy framework and the potential for fraud. The right to buy legislation whilst specific enough to ensure eligibility criteria is consistent nationally, there appears to be further scope for local authorities to carry out additional checks/ validation processes and request additional information beyond that specifically required under the Government Scheme .

Some Local Authorities are now using different approaches, resources and enhance processes when verifying a genuine RTB application.

From an Audit point of view whilst current processes in Sheffield meet the requirements of legislation, further enhancements could be implemented to make processes more robust. A significant number of Local Authorities across the country have sought to tackle fraud by implementing new approaches and validation processes. Sheffield should take the opportunity to share/ learn

from the forerunners in terms of fraud prevention and seek to implement best practice.

In recent months, the Home Ownership Team (HOT) has taken a proactive approach to strengthening and enhancing existing controls and processes. There is ongoing liaison with other local authorities and SCC departments, including the housing tenancy team, to share best practice and utilise the information available to the Council.

During the period of the audit the use of Equifax has been introduced which has mitigated against the risk of falsely completing the insolvency declaration. Further information regarding the process improvements being made can be found under the 'agreed actions' section for each finding on pages 6-9 in this report.

Consideration could also be given for the scope to extending the use of Equifax for verifying previous out of Sheffield Right to Buy purchases. Currently the applicant self certifies on the application form that they have not had a right to buy previously (this would reduce the amount of discount available to them) and although the RTB team conduct validation checks, on all declared tenancies both in Sheffield and at other Local Authorities, if the application fails to declare a purchase in another area there is currently no mechanism /national network available to detect this. Moving forward the HOT team should evaluate any further scope to gain any further intelligence from Equifax and through the National Anti-Fraud Network to detect fraudulent declarations.

High priority recommendations:

- Insolvency declarations should be reviewed to ensure correct completion and RTB eligibility.
- Management should refer to best practices shared by other local authorities including Haringey.

Review of Records Management

Executive summary

It should be noted that the reasoning behind the 'medium-high' opinion relates, in part, to ineffective controls within Service areas across the Council. Often, services are not retaining good enough records of what is held in storage and continuity arrangements are poor when Officer's responsible for records leave the Council or Services disband. The records management service is not responsible for actions taken within service areas; however, they can promote, through their existing processes, better records management wherever possible. Some of the recommendations in this report detail how they can help to do this. Internal Audit has recently undertaken a piece of work on data controls and has made recommendations in relation to better communicating and embedding the records lifecycle across the Council. These recommendations, when implemented, will support services to manage their records effectively and should be undertaken in conjunction with the recommendations in this report.

High priority recommendations:

- Secure the records storage area so that only SCC staff can access it.
- Update the records management service guidance notes to emphasise the importance of service's retaining detailed and robust records of information held in storage and the importance of appropriate hand over arrangements when staff leave the Council/Services disband.
- Consider the use of an intranet e-form to capture the data required when records are to be put in storage.
- Update the Transfer Sheet to include reference to the Council's obligations under Principle 5 of the Data Protection Act.
- Update the Transfer sheet to include details of appropriate senior management for escalation purposes when contact cannot be made regarding records in storage.
- Send out an annual report to business unit managers detailing monthly charges and requesting action where appropriate.

Main Financial Systems (MFS) – Purchase 2 Pay Review

High priority recommendations:

The Director Commercial Services should ensure that:

- all orders with a value above the tendering thresholds are subject to peer review;
- 10% of orders with a value above the threshold for written quotations are subject to peer review;
- all written quotations to be noted on OEO as an attachment to the purchase order prior to the procurement being approved;
- any agreed amendments to the P2P declaration form are noted on OEO by the officer approving the procurement;
- procedures are introduced within Commercial Services to ensure that all contracts and waivers are entered on their respective Register;
- all staff within Commercial Services should be reminded that it is their duty (under C.2.4.3) to report unauthorised breaches of CSOs, and that appropriate action will be taken where any instance of failure to report an unauthorised breach is identified.

MFS – Combined Authority – Cash Book Testing

Executive summary

Internal Audit acknowledged that the team had recently undergone an internal audit by Barnsley Metropolitan Borough Council internal audit and an external audit by KPMG as part of the 2015/16 close of accounts. Additionally, the Combined Authority (CA) finance business partner team had low capacity due to vacancies and were under high pressure during the transactional period covered due to year end, and work was prioritised accordingly during this time.

It was clarified by management that the CA business partner team did not follow the same finance model as SCC; the governance/process arrangements differed in some instances due to business requirements not

mirroring those of SCC. The findings surrounding the governance risk within the CA were found to be out of scope for this audit, therefore these will be shared with the BMBC internal audit team for future review.

High priority recommendations:

- Management should document the processes for the managing of grants
- Balance sheet reconciliations should be completed on a monthly basis

Housing Benefits Review

Executive Summary

In 2015/16 new claim assessments and error rate performance targets were not achieved. New claim assessment performance was disputed as to whether 26.3 days against a target of 26 days resulted in the target being achieved or not. This was later resolved as non-achievement. The error rate performance target was not achieved throughout 2015/16, with quarterly error rates of Q1-11.25%, Q2-13.10%, Q3-13.20% and Q4-15.13%.

No penalties / performance deductions for 2015/16 were made due to commercial reasons. A review of the error rates for 2016/17 was also undertaken. It identified that the error rate performance target had again not been achieved, with quarterly error rates of 19.3%, 16%, 14.6% and 18.1% respectively.

Discussion with Revenues and Benefits client team management revealed that a rectification plan regarding error rates has been formally requested from Capita.

To assist in the review of the effectiveness of the rectification plan the Housing Benefit review to be undertaken as part of the 2017/18 audit plan, which was originally due to cover 2016/17 assessment testing, will now focus on the outcomes of the rectification plan and the error rates achieved. This audit is planned for completion in October 2017.

High priority recommendations:

- Error rate rectification plan to be documented and implemented

Capita One Application Review

High priority recommendations:

- Update the Data Protocols Acknowledgement to reflect that staff have completed relevant training.
- Produce an Access Control Policy for the system.
- Develop the role based definitions profile for the system.
- Update user access from the monthly leaver information available on SharePoint.
- Review the functionality of the Audit Log facility on the One system with a view to establishing how this can be utilised going forward.

- Firm up and document business continuity arrangements.
- Update the OLA with Capita for the One system.
- Work with BCIS and Commercial Services to market test the application for best value.

Staff Utilisation

Executive summary

As part of the testing of agency staff utilisation internal audit excluded Housing and Neighbourhood Services, due to the ongoing, extensive MER scheme in place.

Additionally, since the commencement of the audit, new controls have been put in place by HR, in October 2016, to tighten the spending on recruitment. Internal audit note that certain categories of agency workers are exempt from the new process – one of these being social care (unqualified) – which from testing proved to be the biggest percentage of agency engagement in the portfolio. The recommendations in this report will aid in the monitoring of spend and activity of this category of agency worker.

High priority recommendations:

- Strengthen the monitoring of agency workers in each service, via some form of matrix proforma.
- Track the cost and reason for agency use.
- Review the monthly monitoring report from HR on a periodic basis to ensure that the hierarchy given is correct.

Schools Website – Publication of Governors Declaration of Interests and Pupil Premium Spend

Executive summary

Forty school websites were sampled for this internal audit review. The review was undertaken remotely with IA viewing each school's website. It was acknowledged that some entries as 'non-compliant' may, in effect, be 'not applicable'. In addition to this, some websites did not contain a clear site map, meaning some entries as 'non complaint' may, in effect, be compliant, but were not located at the time of the review.

At the time of review, all schools were part of the Local Authority, however, it is noted that some schools sampled may now be academies. The report was assigned a medium-high opinion due to the high number of recommendations being made.

Achieving Savings (Place) and (Resources)

Executive summary

Although the year-end budget position in both portfolios is forecast to be balanced, this has not been achieved by fully implementing the budget

savings agreed by Cabinet at the start of the budget process. Within both portfolios, the overall position was monitored and managed where necessary through the implementation of alternative savings proposals. A medium-high opinion is given to reflect the fact that these alternative proposals helped achieve a balanced position.

High priority recommendations:

For Place:

- An escalation process will be established for the Executive Director to report on concerns to Cabinet.
- Action Plans to be put in place to ensure that outstanding savings proposals from 2016/17 are developed and delivered for the start of 2017/18.

For Resources:

- SharePoint to be updated to flag whether cross Portfolio impacts have been considered.
- Work on communicating the budget position across the Council to be undertaken with EMT and the Directors Group.
- Increase the use of SharePoint.
- Introduce in-year substituted savings process to ensure new/amended proposals are subject to sufficient scrutiny

Deficit Recovery

High priority recommendations

- The 'requirement' to have a recovery plan in place, needs to be consistently enforced across Sheffield Schools.

Schools Financial Health-check

11 schools were selected for the financial health-check by triangulating various information sets, i.e. information from the deficit group, previous Control Risk Self-Assessment reviews performed and responses collected, consultation with CYPF Business Partners and ad hoc information collected during the year.

The schools that were given a medium-high opinion were:

King Edward VII School
Carterknowle Junior School
Dobcroft Infant School
Hunters Bar Junior School
Parsons Cross CE School
Heritage Park Special School
Holgate Meadows Community School

High priority recommendations included:

- Governor meetings should be meaningful, challenging and comprehensive minutes taken to demonstrate action and progress.

- A Finance Policy Should be created as soon as possible and taken to Governors for ratification.
- A recovery plan should be produced and there is adherence to the terms and conditions of the arrangement.
- The budget monitoring spreadsheet should be reviewed and checked prior to being relied upon to set the budget going forward.
- Future purchasers made on purchasing cards should have a VAT receipt on file that matches back to a purchasing card transaction log.
- The school should correctly account for the supply of race tickets to the Teachers and ensure VAT is correctly accounted for.
- Staff events expenditure should not be ordered through the school.
- Key recruitment documents/ checks missing for staff and Governors, at the school, should be chased up until all documentation is on file.
- Additional hours/ overtime claimed by staff at the school should have appropriately authorised and completed documentation.
- There should be a clear and definable policy for dealing with supply cover/ agency staff at the school.
- The Head Teacher should ensure that all staff have a valid and up to date DBS certificate (issued within the last 3 years) as per the Guidelines in 'Your Statutory HR Duties: A Reference Guide for Community Schools' (see section 7.1), which states 'It is the schools obligation to ensure that appropriate DBS checks are in place at an enhanced level, with a barred list check (where eligible), recorded in the Single Central Record and renewed every 3 years'.
- A risk management plan should be created as soon as possible.
- An annual validation check should be performed between the inventory record and physical existence of the schools assets.