



Audit and Standards Committee Report

Report of **Linda Hunter, Senior Finance Manager (Internal Audit)**

Date: **22nd April 2021**

Subject: **Internal Audit Tactical Plan 2021/22**

Author of Report: **Linda Hunter**

Summary:

The report presents the Internal Audit planning methodology and programme of work for 2021/22.

Recommendations:

In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice (including Public Sector Internal Audit Standards - PSIAS) it is recommended that Members endorse the attached programme of work for 2021/22.

Background Papers:

Category of Report: **Open**

* Delete as appropriate

Statutory and Council Policy Checklist

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

REPORT TO SHEFFIELD CITY COUNCIL AUDIT AND STANDARDS COMMITTEE 22nd April 2021

Senior Finance Manager Report – 2021/22 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 2021/22.
2. As a result of the Covid 19 pandemic, the audit plan that has been developed needs to be flexible and reactive, to respond promptly to changing issues and risks that require Internal Audit review and input. At mid-year (September 2021) members of the Audit and Standards Committee will be provided with an update on the audit plan.

Background

3. The strategy for Internal Audit is to focus on areas of high-risk activity in order to provide independent assurance that risk and internal control systems are being properly managed by Directors in service areas.
4. The plan has been developed to ensure sufficient coverage across the Council to inform the overall internal audit opinion, required as part of the Accounts and Audit Regulations. Management are asked to contribute to the planning process; however the plan and its contents are entirely the responsibility of Internal Audit.
5. Two years ago an allocation of internal audit resource was re-assigned from assurance work to offer advice and guidance for services as change projects occurred – this was entitled **Internal Audit Business Partnering**. Throughout the course of 2019 to 2021, this resource was used to deliver a number of activities and was very positively received by Portfolios. It also enabled Internal Audit to obtain assurances about new systems and processes as they were established and so will assist as the annual internal audit opinion is developed.
6. The Covid 19 pandemic has already had an impact on the work undertaken by Internal Audit. A number of areas have already been audited and more have been highlighted by Portfolios as significant risk areas and concerns as the pandemic continues. The tactical plan has been developed to reflect some of these key issues. This will enable more significant risk areas to be audited as the priority for 21/22.

Planning Methodology

7. To develop a work programme for the use of Internal Audit's resources, consideration is given to the following:
 - The corporate risk management process including the corporate risk register and portfolio risk management plans.
 - The information provided by Directors under the Annual Governance Statement (AGS) process.
 - The areas of highest perceived new or emerging 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.
 - Learning from other Core Cities and South West Yorkshire Group (SWYG) and more general best professional practice.
 - The outcomes from the internal audit risk-scoring methodology.
 - Covid related grants that specify in the grant determination letter that the Head of Internal Audit needs to verify and sign off.

Utilisation of the Corporate Risk Management Arrangements

8. 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 to this process, current risks emerging from the Covid 19 pandemic are being identified by Portfolios and recorded and reported as part of the risk management process.
9. Effective from January 2019, the risk management team moved under the remit of the SFM Internal Audit. There is a close correlation between the work undertaken within the two areas and closer collaborative working has informed both the scope and content of individual audit reviewed to date. During internal audit fieldwork, auditors are also conducting compliance checks regarding adherence to risk management processes. This will continue for 21/22.

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 Assurance Statement is designed around key governance themes such as Legal, Financial and HR compliance. The returns, which Directors submit and sign up to, provide a wealth of information on how some of the most important internal control arrangements are managed within services. Internal Audit Managers review this information when identifying areas for the audit plan.
11. In addition Internal Audit will perform a review of the annual governance statement process to provide assurance that it operates effectively.

Structure of the Plan

12. The format of the tactical plan remains similar to last year, with sections for each portfolio (which includes the business partnering allocation), a section for corporate reviews and then resources dedicated to fraud investigation work and statutory main financial system reviews. The key change to the tactical plan for 21/22 is the inclusion and key risks identified following the Covid 19 pandemic.
13. Where a portfolio or corporate risk register entry exists for a particular auditable area, this is identified on the tactical plan. In scoping each individual audit, the key governance themes of the AGS are considered. More than one theme may be included within the scope of a single audit. All AGS themes are covered to varying degrees and this will help to support the internal audit opinion on the governance, risk and control environment which is provided to the Audit and Standards Committee annually in July.

Fraud Allegations (Re-active investigations)

14. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft, and corruption. This allocation has been increased for 21/22 because we are fully aware that a significant amount of grant payments has been made to individuals and businesses and therefore there is an increased risk of fraudulent activity/claims.
15. 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.

Pro-active Counter Fraud Work

16. The National Fraud Initiative (NFI), under the remit of the Cabinet Office, 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 SCC data matched with HMRC, as well as COVID business grant data.
17. Internal Audit continues to administer the system and oversee the submission of data for the NFI. 2021/22 is primarily a year to review the data matches received from the NFI in at the end of January 2021. Internal Audit monitor the matches distributed to the relevant service areas for review, investigation, and correction where necessary. Internal Audit also have reports to review and investigate, this work will be carried out during quarter one of 2021/22. Internal Audit will ensure the match work is completed to the required standards and timescales and subsequently report on the outcomes later in the year.
18. In addition to the above 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 examines 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 weak or inconsistent controls and management arrangements.
19. 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.
20. Last year, work began to refresh the fraud awareness e-learning course, and this has now been concluded by the Internal Audit team. This course is having some final validation checks and will be launched shortly for use across the Council.

Main Financial Systems (MFS)

21. Internal Audit reviews the key financial systems of the Council every year, and this aspect of the work of Internal Audit is crucial in supporting the S151 officer responsibilities.
22. From April 2018, Internal Audit introduced a cyclical testing regime for the MFS reviews, which will involve a full system review in year 1 followed by transaction testing, which meets External Audit requirements, in year 2.

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

23. 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 Directors and Directors.
24. 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.

Internal Audit Business Partnering

25. In 2019/20 an allocation of internal audit resource was re-assigned from assurance work to offer advice and guidance as change projects occurred – we entitled this **Internal Audit Business Partnering**. Throughout the course of 2019 to 2021, this resource was used to deliver a number of activities and was very positively received by Portfolios.
26. By reassigning some of the available resource, we were able to take a proactive, supportive role to assist services in embedding change. It also enabled Internal Audit to obtain assurances about new systems and processes as they were established and so will assist in as the annual internal audit opinion is developed.
27. Giving consideration to the positive impact the Business Partnering resource has made, the allocation for 2021/22 has been increased. This will continue to be monitored as part of the performance indicators.
28. Five specific pieces of Business Partnering work have been added to the plan. These reviews will provide support and advice, in addition look at the processes and systems being developed to manage new activity/changes to current activity in relation to Adult Social Care (Business Change Project), access to confidential data in relation to benefit clients, compliance to Payment Card Industry (PCI) requirements, replacement of the Housing Management system, and to review how application reviews are conducted under the new IT service arrangements.
29. Internal Audit is also a 'core' member of the Finance Design Authority Group (FDAG) so some Business Partnering resource has been assigned to this area of work. The Group works with key stakeholders across the organisation, to oversee the development of robust yet flexible financial design principles that supports the development of changes to systems or the organisation structure or scope of operations with financial implications.

The Group assesses proposals that have a material impact on the Council's financial systems and processes and considers impact assessments. Finally to provide assurance on relevant project and programme deliverables and outcomes and compliance with the Council's financial strategies.

Covid 19 Pandemic Impact on the tactical plan

30. We have identified within the tactical plan emerging high risk areas following the Covid 19 outbreak. For example, an audit review on the Financial Stability of the Independence Care Provider Market has been added to the tactical plan for 21/22.
31. Internal audit staff are also involved in the post assurance check process for business grants, so an element of resource has been assigned to continue these checks and meet deadline reporting requirements.
32. Although a number of areas for review have already been identified by Internal Audit to take account of the Covid 19 response and impact on the Council, it is inevitable that other areas will also be identified during the year. Therefore the tactical plan needs flexibility over the course of the year to ensure key risks and concerns are audited as a priority.

Summary of the Audit Plan

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

Auditable Area		Days	% of the total
Corporate Reviews		39	2
Place	Assurance	290	17
	Business Partnering	55	3
People	Assurance	419	24
	Business Partnering	80	5
Resources	Assurance	400	23
	Business Partnering	119	7
Main Financial Systems	Assurance	96	5
	Business Partnering	0	0
Investigations	Assurance	221	13
	Business Partnering	20	1
Total		1,739	100%

Assessed Priority	Outputs
High Priority	92
Medium Priority	3
Low Priority	0
Statutory	22
Total	117

34. Attention is also drawn to the first call list (last page/tab of the plan), which highlights the reviews identified during the planning process which will not be completed in 2021/22. In most cases, there are service-based reasons why an audit review cannot be undertaken in 2021/22.
35. The first call lists are effectively the 18 month audit plan, as reviews included on first call lists will be included in the plan for 2022/22, assuming they are still relevant.
36. The 2021/22 annual plan is attached at Appendix 1.

Future Considerations

37. 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. In particular Internal Audit will continue to monitor and adapt the Plan as necessary for key risks emerging from the Covid 19 pandemic.
38. 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 2018 meeting, and in the event of this level of change, will report to the November Committee.

FINANCIAL IMPLICATIONS

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

EQUAL OPPORTUNITIES IMPLICATIONS

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

CONCLUSION

41. 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

42. 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 2021/22.