

Audit Committee Report

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REPORT OF	Chief Internal Auditor	DATE	26/9/12
SUBJECT	Chief Internal Auditor's Annual Report 2012		
SUMMARY	The attached is the annual report of the Chief Internal Auditor of Sheffield City Council covering the period 01/04/2011 – 31/3/2012.		
RECOMMENDATIONS	To note the contents of the Report		
FINANCIAL IMPLICATIONS	No	PARAGRAPHS	
CLEARED BY	S Gill		
BACKGROUND PAPERS			
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CATEGORY OF REPORT

Open

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: S Gill
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



Sheffield City Council

Corporate Finance

Internal Audit

**Chief
Internal
Auditor's
Annual Report
2012**

**Steve Gill
Chief Internal Auditor
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Town Hall
Sheffield
S1 2HH**

26th September 2012

Purpose of the Report

1. The purpose of this annual Chief Internal Auditors 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).

Introduction

2. The report has been prepared by the Council's Chief Internal Auditor (CIA). It is a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in the United Kingdom that an Annual Report is produced by the Chief Internal Auditor on the work undertaken by the Audit section.
3. The aim of the report is to inform Members on the role of Internal Audit and the work undertaken during the past year and to support the statement prepared by the Council on its governance and internal control arrangements.
4. It is not the intention of this report to attempt to give a detailed summary of each of the audits that have been undertaken during the previous year. The aim is to give a broad review of the control arrangements.

Executive Summary of Audit Opinion

5. From the work undertaken by Internal Audit during the year (2011/12), as CIA, 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 recently circulated to the Audit Committee includes 3 items that were highlighted by management as areas of significant control weakness. Officers are responsible for putting in place action plans to address these areas and their activities will be monitored by the Audit Committee.
7. Internal Audit has undertaken a number of counter fraud investigations involving the Housing/Council Tax Benefit claims of households containing Council employees. In addition, Internal Audit has investigated or assisted service managers to investigate other allegations of irregularity and associated disciplinary procedures throughout Council services (refer to para 41, 67 & 68 for further details).

8. Work to strengthen the Council's counter fraud framework continued during the year in order to reduce the likelihood and impact of irregularity. A revised Fraud Response Plan was produced and publicised throughout the Council to assist managers and staff to recognise, report and respond to incidents of irregularity. Fraud awareness presentations continued to be delivered to Council and Sheffield Homes staff when requested to improve their knowledge of fraud indicators and raise alertness. Work commenced to create a fraud awareness e-learning facility that will enable staff to obtain training and/or refresh their knowledge of counter fraud arrangements. And this will shortly be launched on the internet.
9. Internal Audit also undertook a number of planned pro-active initiatives to seek assurance that the selected processes contained robust counter fraud controls and where this was found not to be the case, make recommendations intended to strengthen controls.
10. From the routine planned internal audit work undertaken and reported upon during 2011/12, systems of internal controls were, in general, adequate. Management's response to control issues arising from individual Internal Audit reviews has been very positive overall, with actions to further enhance controls being agreed and formally accepted. A total of 8 audit assignments were given an audit opinion of high risk of failing to deliver objectives and these have been reported to the Audit Committee. These audits will be subject to follow up reviews to consider improvements and compliance with audit recommendations.
11. Assurance has been taken from the certification of internal control completed by Directors of Service under the AGS arrangements. The Deputy Chief Executives Portfolio co-ordinated the compilation of the Annual Governance Statement on behalf of the Council whilst ensuring that responsibility for items included within the statement lies with the senior management of the Council.
12. As the Chief Internal Auditor of the Council I am unaware of any other significant control weaknesses that have not been included within the Council's Annual Governance Statement.

Legislation Surrounding Internal Audit

13. 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 she 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 in relation to internal control”

Other statutory requirements are:

- The Executive Director - Resources also has responsibility, under the Local Government Finance Act 1988 (Section 114), to ensure that all expenditure of the Council is legal. It is a requirement that Internal Audit should have regard to the legality of expenditure when carrying out audit work.
- Paragraph 136 of Circular 7/88 issued under Section 34 of the Education Reform Act 1988 states “...the Secretary of State will expect the accounts of schools with delegated budgets to be subject to regular internal audit and to be available for inspection as necessary by the LEA’s external auditors”. This Act has subsequently been strengthened by the Schools’ Standards and Framework Act 1998 and schedule 14 to the Act (last updated December 2010).
- The Accounts and Audit Regulation 2006 (last updated 2011) requires that ‘the accounting control system determined in accordance with paragraph 1b must include measures i) to ensure that the financial transactions of the body are recorded as soon as, and as accurately as, reasonably practicable ii) to enable the prevention and detection of inaccuracies and fraud, and the reconstitution of any lost records, and iii) to ensure that risk is appropriately managed’.

Professional Requirements

14. 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, Conditions of Service, Codes of Conduct for Members and Officers and other procedural rules.

15. The Internal Audit section also has to meet the standards laid down by professional bodies such as the Chartered Institute of Public Finance and Accountancy (CIPFA), in particular the Code of Practice for Internal Audit in Local Government.
16. An aspect of the CIPFA Code which Internal Audit is required to comply with is in respect of a member approved Charter and Terms of Reference (TOR). In view of the changes to membership of the Audit Committee, I have included the Charter and TOR as Appendix A for information, which has been updated to reflect changes in working titles.
17. The CIPFA Code lays down the standards of professional practice, which have to be met by Internal Audit. The standards cover:
- Scope of Internal Audit
 - Independence
 - Audit Committees or equivalent
 - Relationships with management and other bodies
 - Staffing, training & development
 - Audit strategy
 - Management of audit assignments
 - Due professional care
 - Reporting
18. Internal Audit has taken positive steps to ensure that it complies with all of the CIPFA requirements. The only area where Internal Audit differs from the Code is that there is an expectation that the Chief Internal Auditor will report directly to a member of the management board (EMT). At present the Chief Internal Auditor reports to the deputy S151 officer, this point has previously been brought to the attention of the Audit Committee. This issue is not considered to be significant as the Chief Internal Auditor has access to the S151 Officer when this is required.

Review by External Audit

19. External Audit continues to place reliance on the work of Internal Audit for the purpose of certifying the Council's published financial statement. External Audit assess the adequacy of any work undertaken by Internal audit on which they place reliance.
20. External Audit has previously reviewed Internal Audit arrangements within local authorities to ensure compliance with the Code. However, External Audit are no longer required to perform an in-depth triennial review of Internal Audit.

Internal Audit Resources

21. Internal Audit had an agreed budget for 2011/12 (which was reduced by 20%) as outlined in the table below, which summarises the end of year budget position:

	£	£	£
	Outturn	Budget	Variance
Employees	785,797	856,400	(70,603)
Transport	566	6,900	(6,334)
Supplies /Services	32,929	800	32,129
Total	819,292	864,100	44,808

22. Comparative statistics collated from South and West Yorkshire 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. Comparisons undertaken with other Core Cites in the past have showed similar results.

23. The forecast budgets for 2012/13 and 2013/14 have been reduced by 17.5%. These increasing reductions and pressures continue to compress days available for audit work.

Structure

24. The current structure of the section is shown in Appendix B to this report. Last year, the structure was made up of 20 whole time equivalents (WTE). This has reduced in 2012/13 to 16.5 WTE and this figure currently includes 1 part time staff on maternity leave.

25. 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) Chartered Institute of Internal Auditors (CIIA), Institute of Revenue, Rating and Valuation (IRRV) and Association of Accounting Technicians (AAT).

26. Internal Audit is included in the training and development arrangements for Resources Finance, and a service wide training and development plan is produced annually.

27. The service achieved approximately 84% of its revised plan, after taking into account changes that were required for undertaking unplanned reviews and reductions in available resources. The

2011/12 original tactical plan contained 145 reviews, at the mid-year point, 27 were deferred due to resource reductions. As Chief Internal Auditor I am confident that enough coverage has taken place during the year for me to give a reasonable assurance on the Council's overall control arrangements at the end of the 2011/12 financial year.

Planning Processes

28. The 2011/12 Internal Audit plan was developed in line with the risk assessment model for evaluating and ranking the auditable areas. This system was adequate when Internal Audit resources were sufficient to at least cover the vast proportion of the highest scoring risk areas, the so called 'A' risk audits. However since the reduction of 20% in workforce implemented for 2011/12, and increasing financial risk across the authority arising from budget reductions, the plan identified that more 'A' rated audits were being excluded than included in the plan.
29. The new strategy for future Internal Audit work is to focus on some specific areas of activity which could provide assurance that risk and internal control issues are being properly managed by Directors in service areas. In addition increased allocations of audit resources for other 'firefighting' or investigations type work will need to be made. This new approach was presented and agreed at the May 2012 Audit Committee.
30. The audit plan is discussed with Senior Managers and ultimately agreed with the Executive Director - Resources and the Director of Finance. It should be noted that the plan is subject to review and amendment during the year to allow the inclusion of any emerging relevant risk issues.
31. 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.
32. The announcement that the Audit Commission is to be abolished from 2012 is also likely to have an impact on the work of Internal Audit. There is likely to be an increased emphasis on reducing the cost of external audit by placing reliance on the work of Internal Audit. It has been noted over the past few years that Government departments in particular are increasingly requiring the Chief Internal Auditor to sign off grant claims etc, which were previously undertaken by external audit.
33. The Internal Audit service uses a risk based approach to Internal Audit; this is now used almost exclusively for our audits. This requires closer working with management to identify the risk inherent in the Council's activities and then to test the controls that are in place to mitigate these.

34. As the Council's Chief Internal Auditor, 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. Internal Audit has now moved to a 15 month model to measure the completion of the audit plan. The audit plan delivery, outlining completed, deferred and deleted audits is as follows:

Audit Area	Revised plan	Completed
Resources	47	44
DCX	4	3
CYPF	25	21
Communities & Place	34	25
Sheffield Homes	5	4
Benefits	3	2
Total (Planned Reviews)	118	99
Investigations		74
Total		173

35. A total of 99 reviews were completed out of a revised plan of 118 or 84%, many of the remaining reviews were deferred due to issues that only became apparent towards the end of the year after the plan had been agreed.

36. In addition, Internal Audit completed or assisted managers to conduct 74 re-active investigations including 22 investigations that had been brought forward from the previous year and were completed during 2011/12. Of the 74 investigations, 54 related to Housing/Council Tax Benefit allegations of which 6 resulted in a formal sanction or prosecution during the year. Investigations also resulted in 8 members of staff being subject to disciplinary proceedings, 4 of which were concluded at stage 4 (dismissal). The number of issues investigated is not considered significant in relation to the number of individuals employed by the Council.

Audit Reporting

37. Internal Audit reports are typically made up of a number of findings and recommendations. Dependant upon the nature of these findings, the recommendations are given one of three categories - High, Medium or Low.

38. All Internal Audit reports are 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.

39. 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.

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

High	8 reports
Medium High	37 reports
Medium Low	40 reports
Low	5 reports

In addition, Internal Audit undertook 9 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 and Archives and Archaeology Accounts work. Furthermore, 20 pieces of follow up work were completed during 2011/12, which did not generate a revised audit opinion.

41. 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 Committee to enable managers to justify their actions.

42. In the year, there were no reviews where it was felt that the residual risks were such as to require reporting to the Audit Committee. Particularly in the case of the high opinion audits, agreed management action was such that the risks will be lowered to an acceptable level.

Review Process/ Quality Control

43. Internal Audit has a robust process of quality control that ensures that all of the reports produced are of a high and consistent standard.
44. The Council's Internal Audit section has for a number of years been accredited by the British Standards Institute (BSI). Budget pressures have impacted on this independent accreditation, which has not been maintained since January 2011. In order to ensure the service is still meeting the requirements consistent with the BSI quality standard, an internal review was undertaken by two members of the audit team in December 2011 - thus despite not retaining the official accreditation, we have sought to ensure that the quality control processes used within the section are of a robust standard.

Reporting Arrangements

45. All audit assignments are subject to formal feedback to management in an appropriate format; this is usually a standard formal report and accompanying implementation plan. Draft reports are sent to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions, timeframe for implementation and comments will be issued to the Directors/ Head of Service of the service under review. Internal Audit also performs follow-up reviews to track implementation of recommendations.
46. In order to formalise this process, Internal Audit has an agreed protocol. This document (Appendix C) sets out the roles, responsibilities and processes that have been agreed to enable the framework to deliver the maximum benefit to the Council.

Reviewing the Service

47. 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:
 - The Internal Audit service 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.

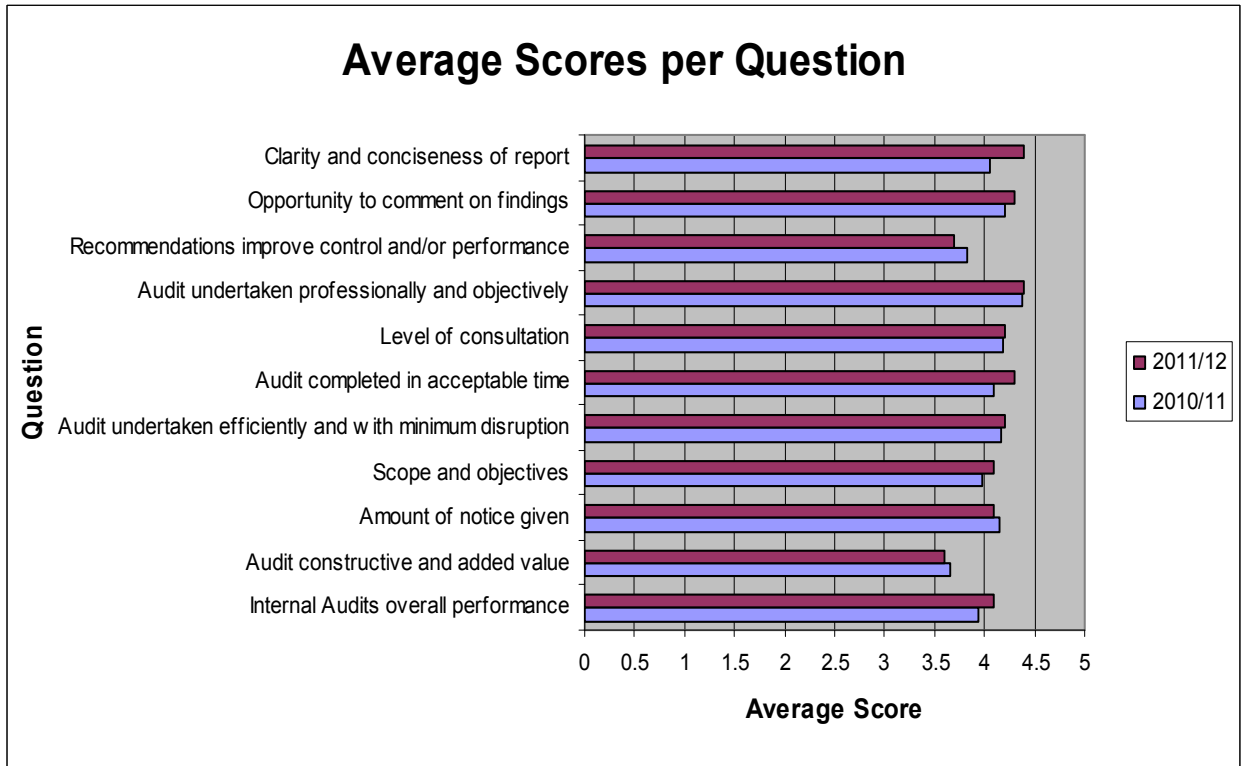
- Internal Audit has a number of performance indicators which it uses to improve performance. The key targets are highlighted within the annual Service Plan and are shown below.
- All audit reports are issued with a standard questionnaire (as used in all Core Cites) which requests client feedback on a number of aspects of the audit process including timeliness, usefulness and conduct of the audit (see graph at para 50).

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

PERFORMANCE TARGETS	2011/12 Target	2011/12 Achievement	2010/11 Achievement
▪ Progress work to agreed work programme	90%	84%	87%
▪ Final reports to be issued within 3 months of the Terms of Reference being agreed.	80%	69%	77%
▪ Quality measures – Average >85% scoring good or better on customer questionnaire (for details see graph overleaf).	85%	93%	89%

49. The figures above show an improvement on the previous year in one area (customer questionnaire feedback) and a slight deterioration in the other 2 target areas. This has been examined by management within Internal Audit and action is being undertaken to help address the issues. Changes within portfolios due to spending cuts across the Council, staff reductions and changing workloads and vacancies, sickness absence and maternity leave within Internal Audit will have had an impact on progress to the agreed work programme.

50. Customer satisfaction questionnaires scores are still seen to be adequate. Any low scores are followed up with the individual service managers and action is taken where appropriate to constantly strive to improve these. Also performance is monitored during supervision on all audits and any training and development issues are identified at an early stage for appropriate action. A blank copy of the full audit questionnaire is shown at Appendix D.



51. The individual scores for questions when compared with the previous year are generally higher and provides positive assurance that the service is well regarded. These scores were still above target and Internal Audit will strive to maintain this position.

52. Internal Audit managers review the performance indicators on a quarterly basis and determine what action can be taken. The targets set are challenging and where targets are not achieved action is still undertaken and documented to try to further improve outcomes.

53. Internal Audit undertakes a number of different types of reviews during the year in order to ensure that adequate coverage is maintained of all systems within the Council. Outlined below are the main blocks of work undertaken.

Service Reviews

54. During the year Internal Audit has undertaken risk based audit (RBA) reviews across the broad range of Council Services. The findings of these reviews together with recommendations for improvement have been reported to management. In the vast majority of cases, management have accepted Internal Audit's recommendations or agreed alternative action. Galileo (audit management, working paper and reporting system) is used for the majority of the risk based audits and has been further utilised to audit projects and project management.

Main Financial Systems

55. As part of the audit review cycle Internal Audit undertakes a programme of reviews that cover the main financial systems of the Council. The work in these areas has been examined by the Council's External Auditors and reliance is placed upon this work for the Council's annual accounts. This method of working reduces duplication of work and means that External Audit do not undertake further expensive checking in these areas.

56. The key systems covered are noted below:-

General Ledger

A review was undertaken of the reconciliation processes used on the General Ledger system. Issues were identified which required attention and management agreement was obtained for their implementation.

Payroll/HR Systems

Significant issues were found during a review of the Establishment Control system and will be reported to the Audit Committee via the next Internal Audit High Opinions Report. Other reviews of payroll reported issues and made recommendations, but these were considered a lower level and management have undertaken to implement the required recommendations within appropriate time scales. The payroll service continues to be reviewed and the HR management systems are in the process of updating and reimplementation.

Income and Debtors

This system has been subject to a review in year and was operating at a satisfactory level. A debt recovery system has improved in terms of income collection and where possible moving to payments in advance of service delivery.

Creditors (P2P process)

This system was found to be well operated. Issues were raised and accepted by management.

Council Tax

A review of transactions and processes has been undertaken. No significant issues were raised in this area.

National Non Domestic Rates (NNDR)

A review of transactions and processes has been undertaken. No significant issues were raised in this area.

Housing and Council Tax Benefit System

The Benefits Service and the Council Tax Service are contracted out and administered on a joint IT system. Risk based audits and transaction testing have been conducted on the Benefits Service (Housing and Council Tax Benefit) during the year. From the testing conducted the reviews found that the Benefit Service is basically sound and recommendations for improving controls were agreed with the Contract Administrator and Capita.

The Contract Administrator is responsible for monitoring benefit determinations and identifying error rates and trends. Internal Audit testing broadly confirmed the error rates found by the Contract Administrator.

Nationally, Housing and Council Tax Benefits are subject to a significant level of fraudulent activity and a team of counter fraud specialists is employed by Capita to deter, investigate and sanction incidents that occur within the Sheffield contract. The level of counter fraud activity is summarised later in this report.

Schools

57. Effective from April 2011, Internal Audit has revised the approach taken to school audits with the introduction of themed reviews. Themes are based on areas previously included within the detailed schools programme. (Prior to 2011 schools audits involved visiting a number of schools each year and undertaking a detailed programme based on an evaluation of the strategic financial planning arrangements, the monitoring and reporting framework and the operational controls and records for the main financial systems). Additionally, risk management issues surrounding certain non financial areas were assessed.

58. In 2011/12, Internal Audit carried out themed reviews of the following areas :

- Educational Visits
- Budget Setting and Monitoring Procedures
- Safeguarding
- Procurement Procedures
- School Health and Safety.

59. The Financial Management Standard in Schools (FMSiS) was withdrawn by the Secretary of State with effect from 15 November 2010. Schools now have the new Schools Financial Value Standard (SFVS) in place, which although not externally assessed like FMSiS, is expected to inform the regular internal audit processes of local authorities. Consideration has been given to the questions included within the SFVS when devising themes to review for 2012/13.

60. With effect from the 2011/12 financial year, in the Dedicated Schools Grant (DSG) Outturn Statement, Chief Finance Officers will be expected to give an assurance that they are taking the contents of the self assessments into account in planning their future programme of audit. They will also be expected to give a general assurance that they have a system of audit in place which gives them adequate assurance over school's standards of financial management and the regularity and propriety of their spending. Internal Audit will use the results of SFVS self assessment to inform future planned themed reviews.

Counter Fraud

61. Internal Audit has a team within the section who also undertake counter fraud work. They deal with potential fraud allegations made against employees and members and provide advice and assistance to managers in all portfolios. The team conduct pro-active counter fraud exercises intended to strengthen the Council's control framework and maintain links to the Police and other statutory investigative services.

62. The Council provides data from its systems to the Audit Commission that is matched with data from other public bodies as part of the bi-annual National Fraud Initiative (NFI). Data matches from this process are then filtered, followed-up and action taken as appropriate. In the current year Internal Audit has been involved in co-ordinating information between services and investigating any data matches relating to employees. The NFI also undertakes an additional data match to identify potentially incorrect awards of Council Tax, Single Person Discount, during intervening years. Internal Audit co-ordinated the Council's participation in this exercise during 2011/12.

63. The Housing and Council Tax Benefit system remains the service area most vulnerable to fraud. Capita are responsible for the investigation of benefit fraud in the majority of cases. Internal Audit conducts investigations for alleged offences which may have been committed by Council employees or Members. Allegations of Housing Benefit fraud are received from various sources including the National Fraud Initiative (NFI), the Housing Benefits Matching Service, benefits processing staff and reports from the general public. These investigations have resulted in a total of 248 cases of Housing/Council Tax benefit fraud being identified.

64. As highlighted in the Council's Counter Fraud policies, the management of fraud risk does not rest with Internal Audit. The role of Internal Audit is to deliver an opinion on the whole of the Council's risk management, control and governance processes. In relation to fraud this includes an opinion of the adequacy of arrangements for managing the risk of fraud and ensuring that the organisation actively promotes an anti-fraud culture. Internal Auditors are vigilant to the potential of

fraud and strive to ensure that there are strategies, policies and controls in place to minimise the occurrence or impact of fraud.

Computer Audit

65. During the year a number of reviews were undertaken and recommendations made for which a generally positive response was received.
66. Internal Audit has also used computer auditors from Salford City Council who have a large team that provides computer audit services to undertake additional work in this area to augment the in-house provision.

Risk Management

67. There are positive practical benefits in reducing the Council's exposure to risk, these include reducing or mitigating the costs should an event occur, developing processes so that adverse operational events are less likely to occur and implementing strategies which will allow services to continue should an adverse event happen.
68. Internal Audit was a member of the Corporate Risk Management Group (CRMG). There is a clear distinction however in that Internal Audit was not responsible for drawing up risk management plans or for the management of risk.
69. The CRMG prime functions are to review the processes in place and to examine mitigation strategies for the key risks identified. Significant progress has been made in integrating the risk management process with the performance monitoring arrangements of the Council, ensuring that EMT and Members are made aware of any significant risks which are being managed in each service area.
70. Risk management has transferred during the year to the transformation team and a full time professional risk manager has been appointed who will coordinate the embedding of the new risk management framework in conjunction with the portfolio teams.

Sheffield City Council's – Annual Governance Statement

71. Sheffield City Council is responsible for ensuring that its business is conducted in accordance with legislation and that proper standards of control are maintained, and that public funds and assets are safeguarded and properly accounted for and are used economically, efficiently and effectively. The 2006 Accounts and Audit Regulations (last updated 2011) place a requirement on the Council to produce an Annual Governance Statement.

72. As CIA I am unaware of any significant risks that have been omitted from the Annual Governance Statement compiled by the Deputy Chief Executives portfolio.

Chief Internal Auditor's Opinion

73. 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.

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

FINANCIAL IMPLICATIONS

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

EQUAL OPPORTUNITIES IMPLICATIONS

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

RECOMMENDATIONS

77. That the Audit Committee notes the opinion of the Chief Internal Auditor.

Steve Gill
Chief Internal Auditor

SHEFFIELD CITY COUNCIL
INTERNAL AUDIT CHARTER & TERMS OF
REFERENCE

SHEFFIELD CITY COUNCIL

INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

Responsibilities and Objectives

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Reporting Lines and Relationships

Internal Audit forms part of the Resources Portfolio. The Chief Internal Auditor (CIA) reports to the Director of Finance. The CIA reports to the Audit Committee on a periodic basis.

Matters reported to Audit Committee include the Annual Audit Plan, and an opinion on the standard of internal control within the authority.

Independence and Accountability

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations. Internal Auditors have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance.

Accountability for the response to the advice and recommendation of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

Statutory Role

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

“ A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body require:

- Make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of the audit; and
- Supply the body with such information and explanation as the body considers necessary for that purpose.”

The statutory role is recognised and endorsed within the Council's Financial Regulations, which provides the authority for access to officers, Members, documents and records and to require information and explanation as necessary.

Internal Audit Standards

There is a statutory requirements for Internal Audit to work in accordance with the 'proper audit practices' the CIPFA code of Practice for Internal Auditors are in effect the standards for local authority internal audit. The guidance accompanying the Accounts and the Audit Regulations 2006 (and updated 2011) makes it clear that the standards are those shown in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Sheffield City Council has adopted the CIPFA standards.

Internal Audit Scope

The Scope for Internal Audit is the control environment comprising risk management, control and governance. This means that the scope of Internal audit includes all of the Council's operations, resources, services and responsibilities in relation to other bodies. This description shows the very wide potential scope of Internal Audit. In order to turn this generic description into actual subjects for audit, the Chief Internal Auditor uses a risk assessment method that allows all high-risk subjects to be identified. The Council's fundamental financial systems are subject to a degree of inspection on an annual basis, whilst Internal Audit also identifies other financial and non-financial systems and functions as important areas for review.

Internal Audit Resources

Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme. The Chief Internal Auditor is responsible for appointing the staff of the Internal Audit section and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The section maintains an annually updated Training and Development Plan, which sets out an ongoing development programme for Internal Audit staff.

The Chief Internal Auditor is responsible for ensuring that the resources of the Internal Audit section are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he concluded that resources were insufficient, he must formally report that to the Section 151 Officer.

Fraud and Corruption

Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud or corruption. Internal Auditors will, however, be alert in all their work to risks and exposures

that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work.

The Chief Internal Auditor has made arrangements to be informed of all suspected or detected fraud, corruption or improprieties so that he can consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for his opinion on the internal control environment.

Reporting Accountabilities

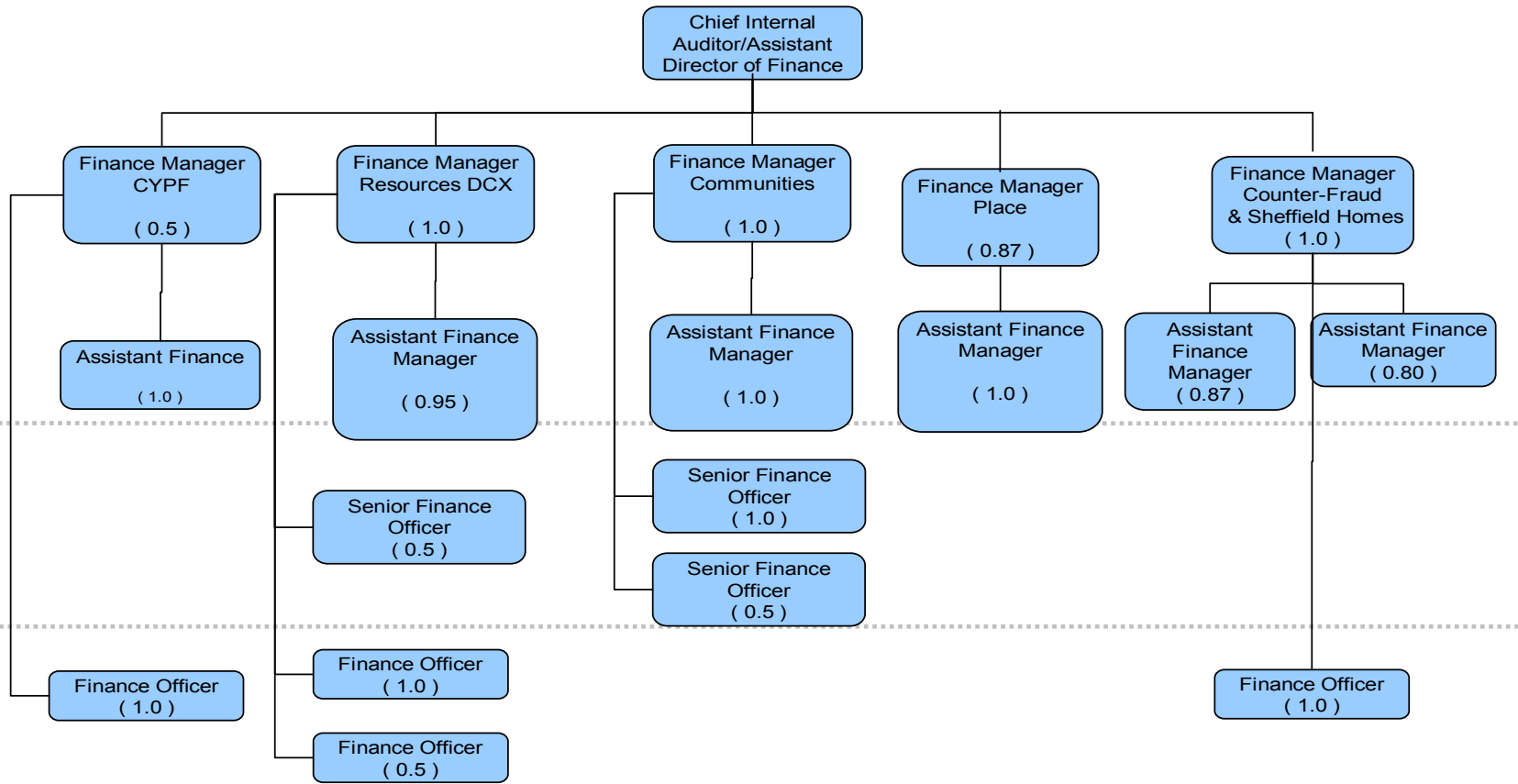
A written report will be prepared by the appropriate Auditor for every internal audit review. The report includes an opinion on the adequacy of controls in the area that has been audited.

The draft report will be discussed with the auditees and a response obtained for each recommendation stating their agreement/non agreement to each recommendation and timeframe for implementation. The draft final report will include these management responses and acceptance to the audit recommendations and will be issued to the auditee and relevant Director of Service for final agreement. The auditee and Director of Service have 7 days to reply to the draft final report before it is issued as final.

Internal Audit reports are subject to a follow up, arranged in order to ascertain whether the action stated by management is their response to the report and has been implemented.

Sheffield City Council
Internal Audit Structure

Internal Audit



Senior Finance Officers and Finance Officers pooled. Structure shows appraisal reporting line only.

SHEFFIELD CITY COUNCIL
INTERNAL AUDIT PROTOCOL

INTERNAL AUDIT PROTOCOL

Introduction

This document sets out the roles, responsibilities and processes of stakeholders for the planning, conduct, reporting and follow up of planned audit work.

Internal Audit will work with Directors and senior managers to minimise impact on services during the planned audits to try to maximise value to the service.

Regulatory Framework

Internal Audit operates within a statutory and professionally (CIPFA) regulated framework for the planning and conduct and reporting of audits. This regulatory framework is relevant to determining the scope and content of Internal Audit work.

Within this regulatory framework a Stakeholder consultation process has been established to include Directors, External Audit, Sheffield City Council Audit Committee, Sheffield Homes Audit Committee and Service Managers. Final approval of the planned programme of work (the Audit Plan) rests with the Executive Director - Resources (section 151 Officer).

The Audit Committee provides a non-executive scrutiny and governance function as recommended by CIPFA.

All references to Executive Directors within this protocol should be taken to include nominated representatives for each Portfolio/service area (PLT/SMT reps, Directors of Business Strategy etc.)

Protocol Objectives

The objective of the protocol is to ensure that the audit planning, assignment, consultation and reporting processes are inclusive and effective and that audits are: -

- Relevant to organisational and service risks
- Efficiently carried out
- Delivered within agreed timescales
- Followed up consistently
- Reported within an agreed framework

Commitments from Internal Audit

- Internal Audit will present draft plans for comment to Executive Directors by Mid March. Any considerations for the preferred timing of audits will be captured at this stage (or as part of the planning process with Directors and Assistant Directors). Any changes to draft plans arising from subsequent consultation with the Executive Director - Resources (Section 151 Officer) or the Audit Committee will be notified to Executive Directors.
- Interim review and progress meetings will be held with Executive Directors quarterly or as specified.
- The detailed timing of audits will be subject to forward planning with the portfolios specified representative quarterly in advance. There may be a few exceptions to this when unannounced visits are essential or where resourcing issues force changes.
- Internal Audit will undertake to deliver final reports within 3 calendar months of agreeing the terms of reference or otherwise agree a date with the auditee.
- Terms of reference (TOR) for each assignment will be discussed with the relevant manager. These will generally be agreed prior to the commencement of work. Occasionally however agreement may not be possible for example where there is a conflict of perceived risk between service managers and the Section 151 Officer.
- Agreed officers for the discussion of report findings and recommendations will be identified at the TOR stage – subject to the actual findings and recommendations raised.
- Significant areas of concern will be raised during the review.
- Audit requirements for the availability of key members of staff and access to records will be discussed at the initial meeting with the service manager who agrees the terms of reference. This will include an agreed date for discussion of the draft report.
- A client satisfaction questionnaire will be issued after each audit. The results are recorded as part of Internal Audit's quarterly PI reporting and summarised in the Chief Internal Auditors annual report to the audit committee (September).

Commitments from Client

- Executive Directors/Directors will be responsible for informing Internal Audit of any material changes in Portfolio/Services risk profiles or preferred timing of planned work in their Portfolio.
- Management will be responsible for identifying any risks omitted from the terms of reference. This will proactively involve managers in the identification of risks.
- Managers are responsible for ensuring key staff and records are available as agreed or informing Internal Audit of potential delays at the earliest opportunity. Information must be supplied in a timely manner that permits the overall agreed date for the discussion meeting and final report to be met.
- Executive Directors/Directors will be responsible for ensuring that there is a process for implementing and following up a recommendation, to provide them with the required level of assurance.
- Management are requested to respond to draft reports within 5 working days to enable the 3 month target for the issue of final reports to be met.
- Management are requested to complete and return the client satisfaction questionnaires within 2 weeks of it being issued.

Closure of audits

- Audits will normally be treated as completed after 3 months from the date of agreeing the terms of reference unless otherwise agreed. A final report will be issued with any material matters outstanding reported. Unresolved matters will be carried into the follow up and exception reporting procedures. They will also contribute towards the assessment of overall governance assurance for the Portfolio.

Reporting arrangements and follow up

- Final audit reports will be sent to the Executive Director/Directors to note their responsibility for the agreed actions. Copies may be made available to the Sheffield City Council Audit Committee.
- Where it becomes apparent during the conduct of an audit that there is likely to be a high residual risk that does not have an agreed management response this will be notified to the relevant Director of Business Strategy. This is to assist management to consider options and provide responses within the agreed timescales. This would be strictly on the basis of “subject to review and conclusion of the audit”.

- Internal Audit will adhere to their follow up procedure in order to report on whether agreed recommendations have been implemented by management.
- It is the responsibility of Executive Directors to satisfy themselves that appropriate action has been taken and is effective. They should establish an internal procedure to achieve this.
- Exception reporting to the Audit Committee will highlight matters of concern relating to delays in the progress of audits, non-implementation of high risk recommendations or significant irregularities. A staged approach is to be taken.
 - Stage 1 - early warning that a watching brief is required because of significant unresolved issues. The Audit Committee will be asked to note Internal Audit concerns. Advance notice to be given to Portfolios and target dates for further action/responses to be set following discussion.
 - Stage 2 – continued and unresolved concerns by Internal Audit with an invitation to the Audit Committee to request direct management responses or attendance at a subsequent audit committee.

It is intended that such items will be few in number and relate to high risk issues such as those that have previously appeared on the Annual Governance Statement or the longer EMT action list.

Significant volumes of lower risk actions not implemented may result in general performance reporting to the audit committee.

SHEFFIELD CITY COUNCIL
INTERNAL AUDIT
CLIENT QUESTIONNAIRE

Director of Service/Service Manager
Audit Title.....

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 deliver is of the highest possible standard

Ratings:
5 = Excellent 4 = Very Good 3 = Good 2 = Satisfactory 1 = Poor

Overall Expectations

- 1. Overall evaluation of Internal Audit's performance for this audit
- 2. Overall evaluation of the audit in terms of adding value to your department

How do you rate the following aspects of the audit?

- 3. Amount of notice given to arrange the audit
- 4. Scope and objective of the audit were agreed to before the work began
- 5. Audit was carried out efficiently with minimum disruption
- 6. Audit was completed within an acceptable amount of time
- 7. Level of consultation during the audit on audit status and key findings
- 8. Auditors were professional, objective and worked well with your team
- 9. The draft report and/or exit interview addressed the key issues and the recommendations will improve control and/or performance
- 10. Your opportunity to comment on the findings and recommendations made
- 11. The final report was clear, concise and issued in a timely manner

If you have marked any of the questions overleaf as a 2 or a 1, please could you take a moment to detail why in the box below.

Your views on any ways in which Internal Audit could be improved, observations on the manner or general approach in which the audit was conducted, and any areas that could benefit from future audit reviews, would also be appreciated. Please provide details in the box below.

In order to continuously improve the service we provide, all feedback received is recorded and analysed. Please be aware that you may be contacted for further details regarding your comments or suggestions.

Thank you for completing this questionnaire.

Please return it to the address below.

Form completed by:

Name: Designation:

Signature: Date:

Please return the completed survey to the Chief Internal Auditor at:	Corporate Resources, Sheffield City Council, PO Box 1283, Town Hall, Sheffield, S1 1UJ Or email to: Steve.Gill@sheffield.gov.uk
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