

SHEFFIELD CITY COUNCIL

Chief Executive's Directorate

REPORT TO AUDIT COMMITTEE

DATE

17 April 2013

REPORT OF

Assistant Director Finance – Business Partnering and Internal Audit

ITEM

SUBJECT

Internal Audit Plan 2013/14

SUMMARY

The report presents the Internal Audit Planning Strategy and programme of work for 2013/14.

RECOMMENDATIONS

In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice (including CPA requirements) it is recommended that Members endorse the attached programme of work for 2013/14.

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
33

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

K Inman

TEL NO.

273 5608

AREA(S) AFFECTED

**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

| |
|---|
| Financial implications |
| YES /NO Cleared by: K Inman |
| Legal implications |
| YES /NO Cleared by: |
| Equality of Opportunity implications |
| YES /NO Cleared by: |
| Tackling Health Inequalities implications |
| YES /NO |
| Human rights implications |
| YES /NO : |
| Environmental and Sustainability implications |
| YES /NO |
| Economic impact |
| YES /NO |
| Community safety implications |
| YES /NO |
| Human resources implications |
| YES /NO |
| Property implications |
| YES /NO |
| Area(s) affected |
| Corporate |
| Relevant Scrutiny Board if decision called in |
| |
| Is the item a matter which is reserved for approval by the City Council? YES/NO |
| |
| Press release |
| YES /NO |

REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE

17th April 2013

Assistant Director Finance (Business Partnering CYPF & Internal Audit) Report – 2013/14 Audit Strategy and Work Programme

Purpose of the Report

1. The purpose of this report is to present and communicate to members of the Audit Committee the Internal Audit plan and strategy for 2013/14.

Background

2. Up until 2011/12 Internal Audit planning had followed a risk assessment of the risk profile of the Council. Annually, the Audit Managers went through a robust process of assessing as many audit areas as could be identified. Each auditable area was risk scored using a tried and tested methodology which was consistent with best professional practice. The risk assessment and discussions with senior managers lead to the formulation of the Annual Audit Plan which was presented to the Audit Committee.
3. The above 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 in workforce, and increasing financial risk across the authority arising from budget reductions, the plan identified that more 'A' rated audits were being excluded rather than included in the plan.
4. A new approach for the audit planning processes was introduced for 2012/13, and subsequently presented to the Audit Committee in May 2012. The strategy for future Internal Audit work was to focus on specific areas of activity which could provide assurance that risk and internal control issues were being properly managed by Directors in service areas. In addition, increased allocations of audit resources for other 'fire fighting' tasks were made.
5. During the financial year 2012/13 there was a decrease in the number of fraud referrals received by Internal Audit. The prime reason for this was an agreed reduction in the processing of Department of Work and Pensions data matching referrals (Housing Benefit Matching Service) received by the Capita counter fraud team.

Audit Strategy

6. The utilisation of Internal Audits' resources has been structured around the following:
 - More utilisation of the information provided by Directors under the Annual Governance Statement (AGS) process.
 - More utilisation of the Corporate Risk Management process including the Corporate Risk Register and Portfolio Risk Management Plans.

- A reduction around the Main Corporate Systems i.e. Internal Audit of Projects, Programmes and Partnership arrangements.
- Fraud, theft and corruption allegations (re-active investigations).
- Pro-active counter fraud work.
- Main Financial Systems (MFS) work.
- Continued use of Salford for the delivery of the more technical aspects of the IT audit plan.
- The balance of audit resources to be utilised on the areas of highest perceived risk at any given time i.e. not necessarily an annual plan but possibly as determined by the Chief Executive/Executive Management Team (EMT)/Executive Director - Resources/Director of Finance/Assistant Director Finance (Business Partnering CYPF & Internal Audit) /Senior Finance Manager/ Finance Managers.

Utilisation of the Annual Governance Statement

7. The process for collating information for the production of the AGS was established by Internal Audit and is being managed by Legal and Governance for 2013/14. The information which Directors submit and sign up to provides a wealth of information on how some of the most important internal control arrangements are managed within services. Audit Managers review this information when identifying areas for the audit plan.

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.

Main Corporate Systems

9. During 2012/13 Internal Audit introduced more in depth and detailed testing of Main Corporate Systems, these systems were:
 - AGS
 - Risk Management Arrangements
 - Performance Management Framework
 - Project and Programme Management
 - Partnerships and Contracts
10. A number of audits have been conducted during 2012/13 and a significant number of these reports have been assigned the Audit opinion of 'Low' and 'Medium-Low' (refer to the 'Output report – Activity by opinion report' presented at this Audit Committee). This has provided assurance of compliance with some of the Councils most important controls, policies

and procedures. The audit coverage for Main Corporate Systems has therefore been reduced to reflect this and a more detailed testing regime will be introduced on a cyclical basis.

11. In relation to Projects and Programmes the audit work and coverage during 2012/13 has identified individual projects which have been included within Portfolio plans for review. We have therefore formalised our role by developing a systematic approach to auditing the major projects based on factors such as size of the project and key milestones e.g. assessing the project outline, reviewing governance arrangements and the completion of post project reviews. It is not intended that Internal Audit will become required members of project or programme management boards.
12. Partnerships seem to regularly provide difficult issues for the Council to deal with. Internal Audit have identified the most significant partnerships and take a view on associated risk and review partnership arrangements as a matter of course. In addition to the Kier Partnership review within the Main Corporate System section of the audit plan some partnership reviews are included within the Portfolio plans.
13. Performance management framework audit coverage has also been reduced for the 2013/14 audit plan due to the positive and 'Low' opinion reports issues for 2012/13. The intelligence gained from these reviews will feed into future Service area reviews.

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. During 2012/13 the number of Housing/Council Tax benefit allegations received by Internal Audit has decreased due to an agreed reduction in the processing of allegations by Capita. Consequently the time allocated for this type of work during 2013/14 has been reduced. Nevertheless, in the event that the volume of allegations increases or a large scale investigation becomes necessary, resources will be transferred from other areas of the Internal Audit plan. It is likely that the next few years will see an upturn in reported irregularities due to a number of factors such as:
 - Capita return to previous levels of counter fraud activity
 - Changes of personnel and reporting lines leading to discovery
 - Squeezed budgets giving fraudsters less room to manoeuvre
 - Reduced levels of internal control as managers seek to manage with fewer resources.
15. The nature of this type of work tends to require more input from audit management.

Pro-active Counter Fraud Work

16. Despite the changes introduced for external audit and the role of the Audit Commission, the National Fraud Initiative (NFI) element of the Commissions work will continue (probably under the auspices of the National Audit Office). This element of work has grown in recent years and will probably continue to expand and is no longer exclusively focused on Housing Benefit fraud, new areas of scrutiny continue to be added e.g. most recently tenancy fraud and abuse of the blue badge scheme. During 2011/12 SCC participated in an additional biennial Council Tax, Single Person Discount NFI exercise and is currently participating in a national pilot NFI exercise involving Self Directed Support (Direct Payments).
17. In addition to the above externally generated work, in recent years Internal Audit have included a number of exercises in the plan directed primarily at consideration of the specific risk of fraud in an area of activity, for example employee expenses, grants and fuel management. These exercises have been successful in identifying irregularities and weak/inconsistent controls and management arrangements. Internal Audit has also introduced an approach within mainstream risk based audits to identify areas which are potentially more susceptible to fraud-risk and which could identify areas worthy of a more intensive scrutiny from a counter-fraud perspective. During recent years Internal Audit has provided fraud awareness presentations to Council and Sheffield Homes employees to improve defences against fraud. An e-learning course has now been developed and made available to replace face to face training. Whilst the allocation available for this element of work has been reduced a small number of pro-active exercises have been included in the 2013/14 plan.

Main Financial Systems (MFS)

18. Internal Audit have for a number of years tried to reduce the time devoted to MFS work, however it is unlikely that this could be reduced further and we may come under pressure to increase this work at the behest of external audit. External Audit place reliance on the soundness of the MFS and assurance from the work of Internal Audit on these systems. Any work undertaken on the MFS by external audit is likely to be in the region of double the price of Internal Audit on a day rate basis. Key Financial Systems have been selected for the 2013/14 audit plan, including a number of follow up reviews. The Director of Finance believes this aspect of the work of Internal Audit to be crucial in supporting the S151 officer responsibilities.

ICT

19. The partnership for technical ICT support has been re-tendered this year, and the successful bidder was Salford, who we have worked with Internal Audit for a number of years. They will be delivering 3 of the more technical audits on the audit plan, using their ICT knowledge and expertise.

Risk Based Audits of Systems/Services/Functions

20. It is proposed that the much reduced resource not utilised on the above elements is devoted to undertaking reviews of the areas of most perceived risk as identified by Internal Audit in consultation with key officers i.e. principally the Executive Director - Resources/Director of Finance/Chief Executive plus Executive Directors and Directors. The proposed level of consultation already happens under current arrangements to a large extent, however, the basis of the planning discussions were not a fully risk scored audit universe but more reliant on perceived areas of risk and emerging issues.
21. 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.
22. Two audits have been included within the Communities Portfolio plan to review the integration of Sheffield Homes. These audits will be undertaken during the first two quarters to promptly identify any significant issues during this transition process for management action.

Resilience

23. Internal Audit has considered how it could handle business as usual in the event of a major investigation. Prior to the Chief Internal Auditors retirement he produced a protocol to 'share' resources with other local authorities for use in such an event. Initial discussions have been held with the Core City Authorities who are all receptive to the development of a protocol to govern resource sharing and this will be explored further with neighbouring authorities.

Summary of the Audit Plan

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

| Auditable Area | Days |
|--|-------------|
| Children, Young People and Families (CYPF) | 341 |
| Place | 287 |
| Communities | 464 |
| Strategic Resources | 321 |
| ICT | 198 |
| Deputy Chief Executives | 0 |
| Core Public Health | 18 |
| Main Financial Systems | 136 |
| Main Corporate Systems | 178 |
| Counter Fraud | 246 |
| Housing Benefit | 63 |
| Total | 2252 |

25. The Internal Audit teams have been reconfigured following changes in the approach to planning and an overall reduction in the establishment. The promotion of a Finance Manager has resulted in a redistribution of workload and Portfolio leads to the remaining Finance Managers. This structure will be reviewed at mid-year to ensure effective working arrangements and distribution of responsibilities. This is shown in diagrammatic form at Appendix 1.

26. The 2013/14 annual plan is attached at Appendix 2.

Future Considerations

27. 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.

28. Given that the operating environment of the Council is changing rapidly, it has been agreed that the planning process needs to be much more flexible and responsive than in previous years. These changes include Deputy Chief Executives restructure, Sheffield Homes Integration and Public Health transfer. Internal Audit will ensure that key officers are able

to suggest areas for review at any time rather than at a fixed planning stage. This approach will potentially involve a greater level of management liaison with senior officers throughout the year.

29. Internal Audit would like to emphasise that the 2013/14 plan is very challenging and is based around some difficult targets for each auditor. Reducing resource bases across the authority and the changing environment meant that in 2012/13, Internal Audit experienced difficulties delivering all the planned audits as delays engaging officers from across the council significantly impacted on our ability to start, progress and complete reviews in a timely manner. This situation will most likely worsen in the next financial year which could then have a knock-on effect on Internal Audits' ability to achieve planned outputs. This situation will be monitored continuously throughout the year, and appropriate adjustments made to the tactical plan as required.

FINANCIAL IMPLICATIONS

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

EQUAL OPPORTUNITIES IMPLICATIONS

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

CONCLUSION

32. 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

33. 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 2013/14.

Laura Pattman
Assistant Director Finance
(Business Partnering CYPF &
Internal Audit)

Kayleigh Inman
Senior Finance Manager

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| Audit Manager Clive Sellens |
| Counter Fraud |
| Housing Benefit |
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| Audit Manager Helen Moltano |
| Communities |
| Main Financial Systems |
| Main Corporate Systems |
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| Audit Manager Linda Hunter |
| Place |
| Children, Young People and Families (CYPF) |
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|--|
| Audit Manager Stephen Bower |
| Strategic Resources |
| ICT |
| Core Public Health |
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