

**Sheffield City Council**

**Corporate Finance**

**Internal Audit**

**Senior Finance  
Manager's  
Internal  
Audit  
Annual Report  
2013**

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### **Purpose of the Report**

1. 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).

### **Introduction**

2. The report has been prepared by the Council's Senior Finance Manager (Internal Audit). 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 Senior Finance Manager (Internal Audit) on the work undertaken by the Audit section.
3. The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013, and aims to promote further improvements in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. A paper was presented to the April 2013 Audit Committee explaining these changes and requirement on Internal Audit. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adapted for the public sector. The PSIAS replace the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006*. This Annual Report still refers to the CIPFA Code as it was the relevant documentation in place for this reporting period 2012/13.
4. 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.
5. 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**

6. From the work undertaken by Internal Audit during the year (2012/13), 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.

7. The Council's Annual Governance Statement previously circulated to the Audit Committee (July 2013) includes 2 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.
8. 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 38, 64 - 67 for further details).
9. Work to strengthen the Council's counter fraud framework continued during the year in order to reduce the likelihood and impact of irregularity. A fraud awareness e-learning facility that enables staff to obtain training and/or refresh their knowledge of counter fraud arrangements was completed and publicised. Preparation for the biennial National Fraud Initiative was co-ordinated and data was submitted as required by the Audit Commission. An additional regional data matching exercise was co-ordinated on behalf of the Communities portfolio.
10. Internal Audit undertook planned pro-active initiatives to seek assurance that the selected processes contained robust counter fraud controls and, made recommendations where vulnerability was identified.
11. From the routine planned internal audit work undertaken and reported upon during 2012/13, 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 3 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/have been subject to follow up reviews to consider improvements and compliance with audit recommendations.
12. 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 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.
13. As the Senior Finance Manager (Internal Audit) 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**

14. 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**

15. 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.
16. 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) and Institute of Internal Auditors (IIA).
17. The Public Sector Internal Audit Standards (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*. For the Financial year 2012/13 Sheffield City Councils' Internal Audit service complied with the requirements of the CIPFA Code of Practice, and this is referred to in the Job Descriptions of all auditors. Compliance to the PSIAS will be reported in next year's annual report.
18. An aspect of the CIPFA Code, and subsequent PSIAS is a requirement to comply with a member approved Charter and Terms of Reference (ToR). The Internal Audit Charter and Terms of Reference covered the CIPFA Code and most of the PSIAS requirements. The Charter has been reviewed and updated to reflect the new reporting arrangements implemented from April 2013. I have included the Charter as Appendix A for information.
19. The PSIAS lays down the standards of professional practice, which have to be met by Internal Audit. The standards have been split into 2 sections, Attribute and Performance Standards. The Attribute Standards cover:
  - Purpose, Authority and Responsibility
  - Independence and Objectivity
  - Proficiency and Due Professional Care
  - Quality Performance and Improvement Programme
20. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.
21. Internal Audit has taken positive steps to ensure that it complies with the PSIAS requirements. Some minor changes are required to documents and processes, for example, the periodic assessment of compliance with the PSIAS will be incorporated into the annual 'quality audit' using a self-assessment methodology. Also we are exploring the feasibility of 'peer reviews' within the Core Cities Chief Auditors Group for independent external assessments.

22. The only area where Internal Audit differs from the CIPFA Code (and subsequent PSIAS) is that there is an expectation that the 'Chief Audit Executive' will report directly to a member of the management board (EMT). At present the Senior Finance Manager reports to the Assistant Director Finance, who subsequently 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 Audit Executive' has access to the S151 Officer and Chief Executive when this is required. Similarly remuneration is determined as per the Human Resources Pay Structure and Pay and Grading.

### **Review by External Audit**

23. 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.

24. 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**

25. Internal Audit had an agreed budget for 2012/13 (which was reduced by 28%) as outlined in the table below, which also summarises the end of year budget position. The increasing reductions and pressures continue to compress days available for audit work.

	£	£	£
	Outturn	Budget	Variance
Employees	603,809	614,800	(10,991)
Transport	865	4,800	(3,935)
Supplies /Services	4,012	600	3,412
Total	608,686	620,200	(11,514)

26. 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.

## **Structure**

27. The current structure of the section is shown in Appendix B to this report. Last year, the structure was made up of 16.5 whole time equivalents (WTE). This has reduced in 2013/14, with the current total being 13.5 WTE. This figure includes 1 full time member of staff who is retiring at the end of September 2013. At this point the Internal Audit structure will have reduced by 24% compared to 2011/12.
28. 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).
29. Internal Audit is included in the training and development arrangements for Resources Finance, and a service wide training and development plan is produced annually.
30. The 2012/13 original tactical plan contained 131 reviews. At the mid-year point, 9 reviews were deferred due to resource reductions. A further 2 new areas were added to the original tactical plan during the year. The service achieved 85% of its revised plan, after taking into account changes that were required for undertaking unplanned reviews. As Senior Finance Manager 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 2012/13 financial year.

## **Planning Processes**

31. Historically, Internal Audit plans have been 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.

32. The new planning strategy, (presented to Audit Committee May 2012) commenced for the 2012/13 Internal Audit planning cycle and internal audit work focussed on some specific key 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.
33. 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.
34. 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.
35. The Internal Audit service uses a risk based approach to audit; this is now used almost exclusively for our audits. 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.
36. 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. 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:

<b>Audit Area</b>	<b>Revised plan</b>	<b>Completed</b>
Resources & ICT	25	19
DCX	3 + 1 new area	4
CYPF	12	9
Communities	14	9
Sheffield Homes	5	4
Place	14	14
Main Financial Systems	8	7
Partnerships and Contracts	8 + 1 new area	8
Risk Management	5	4
Annual Governance Statement	6	6
Performance Plus	8	8
Projects and Programmes	4	4
Benefits	3	2
Pro-active Work	7	7
<b>Total (Planned Reviews)</b>	<b>124</b>	<b>105</b>
Investigations		44
<b>Total</b>		<b>149</b>



37. A total of 105 reviews were completed out of a revised plan of 124 or 85%, many of the remaining reviews were deferred/deleted due to issues that only became apparent towards the end of the year after the plan had been agreed.
38. In addition, Internal Audit completed or assisted managers to conduct 44 re-active investigations including 17 investigations that had been brought forward from the previous year and were completed during 2012/13. Of the 44 investigations, 13 related to Housing/Council Tax Benefit allegations of which 2 resulted in a formal sanction during the year. Investigations also resulted in 9 members of staff being subject to disciplinary proceedings, 1 of which were concluded at stage 4 (dismissal) and 4 resigned during investigation. The number of issues investigated is not considered significant in relation to the number of individuals employed by the Council.
39. 20 pieces of follow up work were undertaken during 2012/13, however these were not included in the audit plan or output statistics and performance indicators for 2012/13. Follow up work will be planned and productive from 2013/14 onwards.

### **Audit Reporting**

40. 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.
41. 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.

42. 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.
43. To give an indication of the risk profile, for audits carried out following the standard risk based approach, results were:

High	3 reports
Medium High	37 reports
Medium Low	40 reports
Low	9 reports

In addition, Internal Audit undertook 16 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 2012/13, which did not generate a revised audit opinion.

44. 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.
45. In the year, there has been a Budget Strategy review within the Children, Young People and Families Portfolio where a Medium-High opinion was provided and 6 recommendations made to management. Management rejected and did not agree to 3 recommendations and only partially agreed to the remaining 3. One of these rejected recommendations was considered to be a high priority recommendation by Internal Audit. This audit report, findings and recommendations have been discussed with the Executive Director emphasising the importance of the recommendations made and the aim to reduce the risks to the council to an acceptable level. In addition, the Director of Business Strategy has provided an update to the Director of Finance regarding actions being taken to improve processes.

### **Review Process/ Quality Control**

46. Internal Audit has a robust process of quality control that ensures that all of the reports produced are of a high and consistent standard.

47. The Council's Internal Audit section was accredited for a number of years 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 a Work Placement student in July 2012 - 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**

48. All audit assignments are subject to formal feedback to management in an appropriate format. 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.

49. 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**

50. 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:

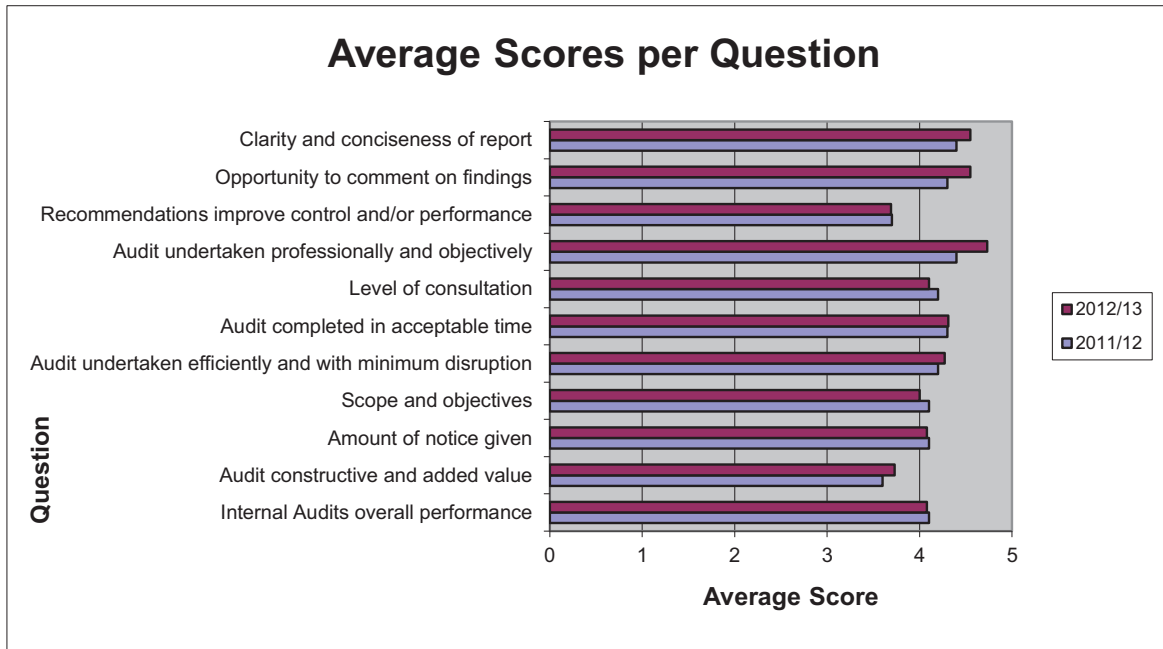
- The Internal Audit service is subject to some level of examination by the Council's External Auditors. They need to be assured that the service meets the standards required in order that they may place reliance on the work of Internal Audit for the final accounts audit.
- Internal Audit has a number 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 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 53). The questionnaire was revised during the year and the number of questions reduced from 11 to 5. The questions remaining are still submitted and used as part of the Core Cities comparisons.

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

<b>PERFORMANCE TARGETS</b>	2012/13 Target	2012/13 Achievement	2011/12 Achievement
▪ Progress work to agreed work programme	90%	85%	84%
▪ Final reports to be issued within 3 months of the Terms of Reference being agreed.	80%	59%	69%
▪ Quality measures – Average >85% scoring good or better on customer questionnaire (for details see graph overleaf).	85%	95%	93%

52. The figures above show a slight improvement on the previous year in two areas (progress work to agreed work programme and customer feedback questionnaire) and deterioration in the other target area. 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 have had an impact on delivery of Final reports within the 3 month target.

53. 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.



54. The individual scores for questions when compared with the previous year are generally higher and provide positive assurance that the service is well regarded. The overall score is above target and Internal Audit will strive to continue and maintain this position.

55. 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.

### Service Reviews

56. 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.

57. 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**

58. 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 does not undertake further expensive checking in these areas.

59. The key systems covered are noted below:-

### **Payroll**

The 2012/13 review made a number of recommendations, dealing with, in the main, non-compliance with policy and procedures.

### **Debtors**

This audit covered the controls within the Council's OEO system and the recently implemented Advanced Income Management (AIM) system, and included sampling of debtor accounts. A number of recommendations were made and agreed, covering the further development of the AIM system to further improve collection rates and processes.

### **Corporate Asset Register**

At the time of the review the asset data records management system was still being developed and the recommendations made at the time, were to ensure that a robust control framework continued to operate, and that the planned programme would be achieved.

### **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. A few minor weaknesses were identified and subsequent recommendations made. Internal Audit raised a recommendation around the provision of figures to central government and this was agreed.

### **Housing and Council Tax Benefit System**

The Benefits Service and the Council Tax Service are contracted out to Capita and administered on a joint IT system. A risk based audit and an annual transaction testing review were conducted on the Benefits Service (Housing and Council Tax Benefit) during the year. From the work completed it was found that controls in the Benefit Service are basically sound however recommendations for improvement were agreed with the Contract Administrator (Revenue and Benefits Client Team) and Capita.

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 Sheffield. The level of counter fraud activity is summarised later in this report.

The DWP has proposed that Local Authority Housing Benefit investigations staff will in future be incorporated into a Single Fraud investigation Service working with the policies and priorities of the DWP. With effect from April 2013 Council Tax Benefit was replaced by Council Tax Support and responsibility for investigation of any fraud allegations remain with the Local Authority.

## **Schools**

60. 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. Additionally, risk management issues surrounding certain non-financial areas were assessed and identified.

61. In 2012/13, Internal Audit carried out themed reviews of the following areas :

- Banking Arrangements
- School Balances – Deficit and Surplus Schools
- Schools Financial Value Standard – Protecting the Public Purse

62. 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.

63. With effect from the 2012/13 financial year, in the Dedicated Schools Grant (DSG) Outturn Statement, the Director of Finance has given 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. In addition, prior to themed reviews commencing the SFVS self-assessment returns are examined to help select the sample schools to visit.

## **Counter Fraud**

64. During 2012/13 Internal Audit had a team within the section that undertook counter fraud work in addition to an audit programme. They dealt with potential fraud allegations made against employees and council Members and provided advice and assistance to managers in all portfolios. The team conducted pro-active counter fraud exercises intended to strengthen the Council's control framework and maintained links to the Police and other statutory investigative services. As a result of a reduction in resources counter fraud activity has been reduced and will be merged with the functions of the remaining Internal Audit teams by March 2014.
65. The Council provides data from its systems to the Audit Commission that is matched with data from other public bodies as part of the biennial 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 the preparation and submission of data for the 2012/13 NFI exercise. The Audit Commission also offer ad hoc data matching services and Internal Audit assisted the Communities portfolio to participate in one such pilot exercise intended to address an identified internal control issue.
66. 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), benefits processing staff and reports from the general public. These investigations have resulted in 151 cases of Housing/Council Tax benefit fraud being identified during the year with a total overpayment value of £630,000.
67. 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.



### **ICT Audit**

68. During the year a number of reviews were undertaken and recommendations made for which a generally positive response was received.
69. 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.

### **Projects and Programmes**

70. Four reviews were included in the 2012/13 tactical plan for Projects and Programmes. Whilst the scope and titles of the audits conducted have been changed slightly, four reviews have been delivered.
71. The Governance and Overarching Strategy audit acknowledged that due to resource availability, the Corporate Programme Office was disbanded and Executive Management Team, decided that each portfolio should develop appropriate programme management arrangement that meet their needs. The overall opinion assigned to the audit was Medium-Low.
72. Two reviews were then undertaken to look at the specific programme and project management arrangements in place within Communities and CYPF. Again, both were assigned a Medium-Low opinion.
73. The final review considered arrangements for closure and review and projects and this was assigned a Medium-High opinion.

### **Performance Plus**

74. Performance Management Framework audits were undertaken for the 12/13 annual plan as part of the revised approach.
75. Overarching audits for the Corporate Performance Plus system (which is used to capture and monitor the Council's performance) and the Corporate Business Planning arrangements were conducted. These reports were issued with a Medium-Low and a Low opinion respectively; meaning that the controls were in place and were for the most part operating soundly.

76. Following these corporate reviews, audits were undertaken within portfolios – an audit covering the reporting and escalation processes was undertaken in Place; the use of Performance Information in Resources and the quality assurance process was concluded in CYPF. No areas of concern were raised with the reports being given either a Low or Medium to Low opinion.

### **Partnerships and Contracts**

77. Reviews of the Council's key contract governance arrangements were undertaken during the year. These included Kier KAPS, Capita, Veolia and the Highways Maintenance PFI Client monitoring arrangements. All of these reviews resulted in medium-low Internal Audit opinions. The overall finding of these reviews is that the contracts were well managed and that they were delivering the required outputs, and that the payments made were in line with those stated under the contract.

78. Many of these contracts have been in place for a considerable number of years. At the time that the contracts were let this allowed for best value to be obtained. The length of the contracts can however mean that that may not mirror the Councils current requirements and take time to renegotiate any amendments during the course of the contract. This is something that management are well aware of and are doing their utmost to resolve, with the current contracts and in drafting new contracts.

79. Reviews in the partnerships area were also undertaken including a review of the overall governance arrangements or partnerships. The overall management arrangements were found to be in place and operating effectively. A review of the council's arrangements for Voluntary Sector grants was also undertaken and found to be operating effectively. A review of the Sheffield First strategic partnership showed that this was well managed. The area had a medium-high opinion, because it is funded by a number of organisations and its budget had been reduced, to the point where further reductions could question the viability of the organisation in its current format.

80. Recommendations in relation to these reviews were accepted by management and actions plans put in place to ensure that these are undertaken.

## **Risk Management**

81. There are positive practical benefits in reducing the Council's exposure to risk, these include reducing or mitigating the costs and impact 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.
82. The Corporate Risk Manager was appointed July 2012 and has responsibility, in conjunction with the Directors of Business Strategy, (DoBS) for the operational implementation of the Risk Management Strategy. The Corporate Risk Management Group (CRMG - DoBS) has now been reinstated with a clear objective to add value to the Risk Management process.
83. A Risk Improvement and Development Group (RIDG) was established in October 2012 on a temporary basis as a task based working group to jointly develop and implement improvements to the Risk Management processes. Furthermore, to share knowledge and good practice and encourage greater consistency and promote engagement and ownership.
84. The internal audit of the Corporate Risk Management process (incorporating Upward Reporting of Risks) highlighted areas of weakness and outstanding actions which were agreed. Action is being taken to drive these changes forward and implement improvements to corporate arrangements. The overall opinion assigned to the audit was Medium-High.
85. Some changes are to be made to the Corporate Risk Management Framework, around risk appetite and escalation. These will be publicised via management briefings when completed. Also the Risk Management e-learning module is being developed and will soon be installed for use.
86. Similar to previous year's portfolio testing a review was undertaken around the Risk Management processes within Communities. The overall opinion assigned to the audit was Medium-Low.
87. A Risk Mitigation planned audit review for 2012/13 was deferred at the request of the client and will be undertaken as a priority audit for 2013/14.

## **Sheffield City Council's – Annual Governance Statement**

88. 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.

89. Four audits were delivered in relation to the AGS process and portfolio testing. These reports were issued with Medium-Low and Low opinions; meaning that the controls were in place and were for the most part operating soundly.

### **Chief Audit Executive (Senior Finance Managers) Opinion**

90. 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.

91. 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**

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

### **EQUAL OPPORTUNITIES IMPLICATIONS**

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

### **RECOMMENDATIONS**

94. That the Audit Committee notes the opinion of the Chief Audit Executive (Senior Finance Manager).

95. The Audit Committee approve the revised Internal Audit Charter as required by the PSIAS.

**Kayleigh Inman**

**Chief Audit Executive (Senior Finance Manager)**

**SHEFFIELD CITY COUNCIL  
INTERNAL AUDIT CHARTER**

**SHEFFIELD CITY COUNCIL**  
**INTERNAL AUDIT CHARTER**

**Definition and Objectives**

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operation. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness or risk management, control and governance processes.

**Purpose, Authority and Responsibility**

Internal Audit forms part of the Resources Portfolio. The Senior Finance Manager (Internal Audit) reports to the Assistant Director of Finance, who in turn reports to the Director of Resources.

The Senior Finance Manager is the designated 'Chief Audit Executive', as defined in the Public Sector Internal Auditing Standards. 'The Board' is defined as the Audit Committee and 'Senior Management' is defined as the Executive Management Team.

The Assistant Director of Finance and Senior Finance Manager reports to the Audit Committee on a quarterly basis. There are a number of standard items reported including the Annual Audit Plan, an annual opinion on the standard of internal control within the authority and regular updates on the implementation of high opinion audit report recommendations.

**Independence and Objectivity**

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. The Senior Finance Manager, Finance Managers (Internal Audit) and Internal Auditors have no operational responsibilities.

The Assistant Director of Finance is responsible for the Business Partnering Function for the Children, Young People's and Families Portfolio. Should the need arise the Senior Finance Manager can report directly to the Director of Finance, the Executive Director Resources, or the Chief Executive. Reports can also be made to the Chair of the Audit Committee if required.

The Senior Finance Manager will confirm to the Audit Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.

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

The Scope for Internal Audit is the control environment comprising risk management, control and governance. This effectively 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, a risk assessment methodology is applied 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 auditors will maintain an impartial, unbiased attitude and avoid any conflicts of interest in the performance of audit assignments.

Accountability for the implementation of recommendations made by Internal Audit lies with management, who either accept and implement the advice or formally reject it. A report is made to the Audit Committee of any 'high priority' recommendations that have been rejected by management.

### **Code of Ethics**

All our Internal Auditors must conform to the Code of Ethics (see Appendix 1). The code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.

The Code of Ethics includes 2 essential components – The Principles and Rules of Conduct (which are an aid to interpreting the Principles into practical applications).

### **Statutory Role**

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2003, 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 are statutory requirements for Internal Audit to work in accordance with the 'proper audit practices' are in effect the standards for local authority internal audit. The guidance accompanying the Accounts and the Audit Regulations 2003 make it clear that the standards are those shown in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003. Sheffield City Council has adopted the CIPFA standards.

With effect from 1<sup>st</sup> April 2013, the CIPFA Code of Practice has been subsumed in the new Public Sector Internal Auditing Standards. SCC is working towards compliance with this new Standard. Any non-compliance will be reported to the Audit Committee in the Annual Report.

### **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 Senior Finance Manager and Assistant Director of Finance are 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 Assistant Director of Finance 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 she concluded that resources were insufficient, she must formally report the to the Section 151 Officer.

### **Engagement Planning**

For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model.



## **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 and their response to the report has been implemented.

## **Fraud and Corruption**

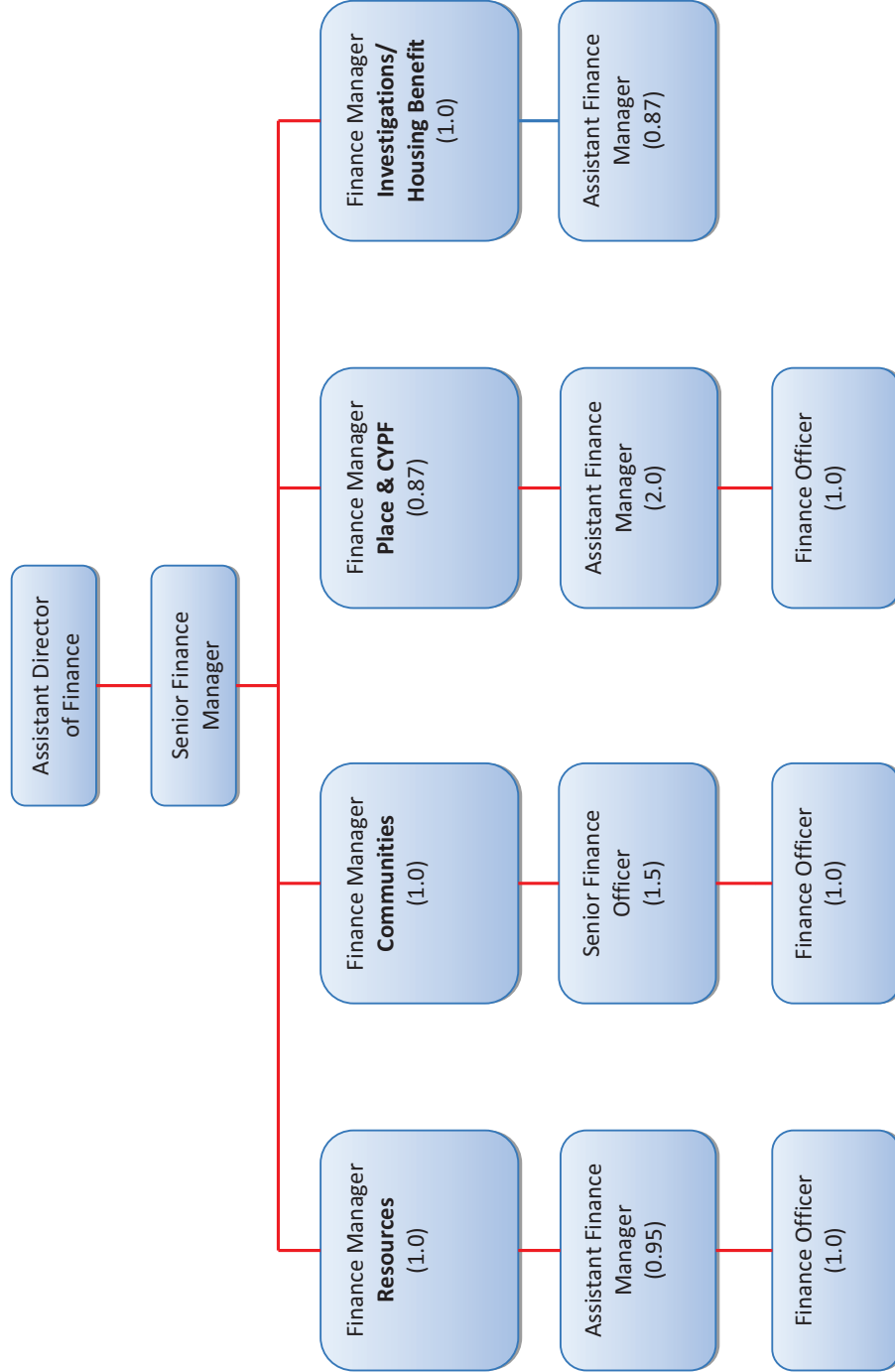
Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud or corruption. 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 Senior Finance Manager 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.

Updated June 2013.

**Sheffield City Council**  
**Internal Audit Structure**

# Internal Audit



**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 (The Public Sector Internal Audit Standards - PSIAS) 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 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 PSIAS.

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 Audits quarterly PI reporting and summarised in the Senior Finance Managers 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**

**INTERNAL AUDIT  
POST AUDIT QUESTIONNAIRE**

Audit:

Portfolio:

Date of Issue: 13 September 20

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](mailto:Kayleigh.inman@sheffield.gov.uk)



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