



Audit and Standards Committee Report

Report of: Senior Finance Manager, Internal Audit

Date: 20th September 2018

Subject: Internal Audit Annual Report 2017/18

Author of Report: Kayleigh Inman, Senior Finance Manager, Internal Audit

Summary: The purpose of this annual Internal Audit report to Members is to highlight the work that has been undertaken by Internal Audit during the year and supports the Council's Annual Governance Statement (AGS).

Recommendations:

Members are asked to:

Note the content of the report and the opinion of the Senior Finance Manager.

Background Papers:

Category of Report: Open

Statutory and Council Policy Checklist

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

REPORT TO SHEFFIELD CITY COUNCIL AUDIT AND STANDARDS COMMITTEE

20th September 2018

Purpose of the Report

1. The purpose of this annual report to Members is to highlight the work that has been undertaken by Internal Audit during the year. The report provides a review of the performance of Internal Audit for the year 2017/18, gives an opinion on the adequacy of the Council's system of internal control, and supports the Council's Annual Governance Statement (AGS).

Introduction

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

Executive Summary of Audit Opinion

5. From the work undertaken by Internal Audit during the year, I am satisfied that the risk management, governance and internal control framework are adequate to allow the Council to conduct its business appropriately.
6. The Council's Annual Governance Statement (AGS) previously circulated to the Audit and Standards Committee (July 2018) includes one area of significant control weakness relating to the ability to comply with Subject Access Requests (SARs) requirements.
7. An action plan addressing a range of concerns regarding SARs is in place and progress is monitored monthly by the Head of Information Management and the relevant Assistant Director and Service Manager.
8. Internal Audit has investigated or assisted service managers to investigate other allegations of irregularity and associated disciplinary procedures throughout council services (refer to para 47-48 for further details).

9. Internal Audit carried out planned pro-active initiatives in areas of perceived high fraud risk to seek assurance that the selected processes contained robust counter fraud controls, and made recommendations where vulnerability was identified.
10. The Internal Audit service co-ordinated the data review of data matches received from the Cabinet Office as part of the biennial National Fraud Initiative (NFI).
11. A detailed annual report on fraud and investigations was presented to the Audit and Standards Committee in June 2018.
12. A total of 15 audit assignments (compared to 14 for 2016/17) were given an audit opinion of high risk of failing to deliver objectives, and these assignments have been reported to the Audit and Standards Committee. These audits will or have been subject to follow-up reviews to assess progress implementing agreed recommendations, and the outcomes of follow-up work are also reported to the Audit and Standards Committee via the high opinion recommendation tracker.
13. From the routine planned internal audit work undertaken and reported upon during 2017/18, management's response to control issues arising from individual reviews has been positive overall, with actions to further enhance controls being agreed and formally accepted.
14. Implementation of agreed recommendations has generally improved during 2017/18. Follow-up work undertaken as part of progress monitoring for the Audit and Standards Committee highlighted that only 3% of recommendations followed up at July 2018 were still outstanding.
15. Assurance has been taken from the certification of internal control completed by Directors of Service under the AGS arrangements. Legal Services co-ordinated the compilation of the AGS on behalf of the Council, whilst ensuring that responsibility for items included within the statement lies with the senior management of the Council.
16. As the Senior Finance Manager (Internal Audit) I am not aware of any other significant control weaknesses that have not been included within the Council's Annual Governance Statement.

Legislation Surrounding Internal Audit

17. Internal Audit is an independent appraisal function within the Council. The Internal Audit section is part of Finance and Commercial Services, which contributes to satisfying the Executive Director – Resources statutory responsibilities. There are two key pieces of legislation that impact upon Internal Audit in local authorities, these are:

Section 151 of the Local Government Act 1972 requires that “every local authority ... make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs”. The Council has designated the Executive Director - Resources as the Responsible Financial Officer in relation to this section and one of the ways he exercises responsibility for financial administration is through the work of Internal Audit.

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015 which state in respect of Internal Audit that:

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

Professional Requirements

18. In addition to legislation, Internal Audit is governed by policies, procedures, rules and regulations established by Sheffield City Council (the Council). These include the Council’s constitution, financial regulations, standing orders, and conditions of service, codes of conduct for members and officers and other procedural rules.
19. The Internal Audit section also has to meet the standards laid down by professional bodies such as the CIPFA and Chartered Institute of Internal Auditors (CIIA).
20. The PSIAS came into force on 1 April 2013, and replaced the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006*. The standard was updated in 2017. The PSIAS include key principles that public sector internal audit functions must follow and cover a range of areas including governance, performance standards and reporting requirements.
21. One of the areas where Internal Audit differs from the PSIAS is that there is an expectation that the ‘chief audit executive’ (CAE) will report directly to a member of the management board (EMT).
22. At present the Senior Finance Manager (SFM), who is the designated CAE, reports to the Head of Strategic Finance (Deputy s151 Officer) who reports to the Director of Finance and Commercial Services, who reports to the s151 Officer (Executive Director – Resources). This point has previously been brought to the attention of the Audit and Standards Committee. The SFM does have unrestricted access to other senior officers, including the Chief Executive and to the members of the Audit and Standards Committee, where required.
23. The PSIAS also introduced a requirement for an external assessment of an organisation’s Internal Audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. Leeds City Council Auditors conducted our PSIAS ‘peer review’ in

2016/17 and the audit report and opinion was presented to the Audit and Standards Committee in April 2017, along with the revised Internal Audit Charter.

24. The opinion provided was that we 'generally conform' which means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or element of the Code of Ethics in all material respects. This is the highest assessment opinion that can be given.
25. As part of the standards, Internal Audit is required to undertake regular self-assessments. Following an update of the standards in 2017, a self-assessment was completed in May 2018, and the summarised results are reproduced in Appendix A. The revised self-assessment still shows compliance or partial compliance with 85% of the standard and non-compliance with 3% (12% of the elements are not applicable).
26. Since the external inspection, the SFM in IA has been given management oversight of the External Funding Team, within Strategic Finance. As a result the requirement for organisational independence has been changed to a partial conformance. The revised standards acknowledge that CAE are often assigned other management areas and so adequate safeguards need to be introduced to maintain objectivity and transparency. Safeguarding arrangements to maintain independence and objectivity have been defined and documented and include measures such as amending reporting arrangements for audits of the External Funding Team to ensure these are not reviewed/overseen by the SFM (designated CAE).
27. A further service development, expected to occur during the coming financial year (2018/19) is the integration of the Risk Management function into Internal Audit. Again, safeguards will be introduced and documented.
28. The Quality Assurance and Improvement Programme is included at Appendix B, which includes details in relation to both internal and external assessments.

Review by External Audit

29. External Audit continues to place reliance where appropriate on the work of Internal Audit for the purpose of certifying the Council's published financial statement. External Audit assesses the adequacy of any work undertaken by Internal Audit on which they place reliance.
30. Internal Audit have quarterly 'liaison' meetings with external audit representatives to discuss and share work programmes, progress of work and key findings and recommendations. We anticipate this arrangement will continue with the Council's new (from 2018/19) External Auditors (Ernst and Young).

Internal Audit Resources

31. Internal Audit had an agreed budget for 2017/18 as outlined in the table below, which also summarises the end of year budget position.

2017/18	£	£	£
	Outturn	Budget	Variance
Total	457,611	517,600	(59,989)

32. The underspend for the financial year was a result of a number of officers acting up into temporary posts to support the implementation of a new finance system. Temporary vacancies are notoriously difficult to recruit to, and so agency appointments were engaged (see para 36). In addition, the service has been supported by rotation of CIPFA trainees who are funded centrally.

33. Comparative statistics collated from the core cities' local authorities in the past, showed that for the relative size of the Council, the cost of the audit function in Sheffield is fifth out of seven (there were no figures available for Manchester).

34. The core cities actual comparisons for 16/17 are presented below. The data for 17/18 has yet to be finalised.

	B'ham	N'castle	Sheffield	Notts	Leeds	Cardiff	Glasgow
Gross Cost £000's	1,881	452	486	574	967	498	1,296
FTE	27.27	11.3	11.4	13.93	19.07	10.31	25.18
£m rev cost of SCC covered per FTE in IA	2.46	3.41	2.01	2.57	2.36	1.91	1.81

Structure

35. The current structure of the section is shown in Appendix C to this report. The service currently has 10.73 FTE officers. It should be noted that in December 2017, an Audit Manager went on maternity leave (0.86 FTE) and her duties are being covered internally by the remaining managers.

36. To help alleviate the pressure on the delivery of the audit plan, 2 agency members of staff were appointed (one full time from September until December 2017 and one part time for 8 months (April-June 17, then Sept 17 until March 2018). In addition, a rotation of CIPFA trainees into the team has assisted with resource pressures.

37. The staffing shortages were reported to the Audit and Standards Committee in November 2017 as part of the revised audit plan report.

38. The Internal Audit section strives to maintain high professional standards by employing and training appropriately qualified staff who are members of or actively studying for professional qualifications. The majority of internal audit staff are either professionally qualified, or are actively studying for relevant qualifications. The section includes members of the Chartered Institute of Public Finance and Accountancy (CIPFA), Chartered Institute of Management Accountants (CIMA), Association of Chartered Certified Accountants (ACCA), Chartered Institute of Internal Auditors (CIIA), and Association of Accounting Technicians (AAT).

Planning Processes and Performance Monitoring

39. A report is submitted to the Audit and Standards Committee in April each year to outline how the annual plan is devised. The strategy for Internal Audit work is to focus on areas of high-risk activity in order to provide assurance that risk and internal control systems are being properly managed by Directors in service areas.

40. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.

41. The audit plan is discussed with senior managers and ultimately agreed with the Executive Director - Resources.

42. In November 2017, a further report was submitted to the Audit and Standards Committee to explain the changes required to the annual plan as a result of significant transformation programmes that are occurring across all portfolios of the Council, and staffing shortages within Internal Audit.

43. The 2017/18 original plan contained 116 reviews. At the mid-year point 14 reviews were deferred/deleted or replaced due to timing issues and/or other priority reviews being identified within portfolios.

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

45. The audit plan delivery for 2017/18 is as follows:

Audit Area	Original plan	Revised plan	Completed	Deferred
Corporate	8	5	4	1
Place	17	22	16	6
People	37	42	37	5
Resources & ICT	23	19	15	4
Main Financial Systems	10	7	5	2
Benefits / Pro-active Work	8	7	6	1
Total (Planned Reviews)	116	102	83	19

Investigations undertaken			19	
Assistance to man't investigations			39	
Total			141	

46. A total of 83 reviews were completed out of a revised 17/18 plan of 102 or 81%. Some reviews were deferred/deleted due to issues that only became apparent towards the end of the year after the mid-plan had been reported. In addition, the increase in resource dedicated to investigations (over and above that included in the original plan) during 17/18 had a knock-on effect on the delivery of planned audits.
47. Internal Audit conducted 19 re-active investigations and assisted managers with a further 39 re-active investigations. These cases covered all areas of the Council from these false claims for services/benefits (blue badge applications) to theft and falsification of mileage claims. This led to a number of dismissals and other appropriate sanctions. The Police were notified and involved where appropriate. A report of fraud-related activity conducted by Internal Audit was submitted to the Audit and Standards Committee in June 2018.
48. Internal Audit also co-ordinated the review and investigation of the data matches received from the Cabinet Office as part of the statutory biennial NFI (National Fraud Initiative). The latest data matches were received in 2017 and these have all now been completed. For 2017/18, the NFI process returned 16,469 data matches for the Council. These are categorised according to the significance of the matches identified. The most significant matches are those classed as recommended. There were 4,466 matches in this category. The Council has reviewed a total of 4,915 cases from the total data matches and closed these off. The result of this work identified 23 frauds and 138 errors, totalling £189,826. The next set of data will be sent off in October 2018 to begin the next cycle.
49. As the Senior Finance Manager, I am satisfied that the coverage undertaken of the Council's activity by Internal Audit in the past year has been sufficient for me to be able to give an overall opinion on the Council's internal control system/environment.

Audit Reporting

50. Internal Audit reports are typically made up of a number of findings and recommendations. Dependent upon the nature of these findings, the recommendations are given one of four categories – critical, high, medium or efficiency/effectiveness.
51. All Internal Audit reports are then given an overall opinion as to the likelihood of the service/system under review being able to meet its objectives. There are four categories of opinion. These are:
- The risk of the activity not achieving its objectives is **high**.

Internal Audit's overall opinion is that controls to manage the operational risks are not present or ineffective.

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

52. 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.

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

High	15 reports
Medium High	28 reports
Medium Low	17 reports
Low	4 reports

54. In addition, Internal Audit undertook 28 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 or account sign-offs. This included 16 pieces of follow-up work which were completed during 2017/18. (Note: the outputs above includes 9 pieces of work completed during 17/18 which were started in 16/17 – effectively year end work-in-progress).

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

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

Reviewing the Service

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

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

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

	2017/18 Target	2017/18 Achievement	2016/17 Achievement
PERFORMANCE TARGETS			
▪ Progress work to agreed work programme	90%	81%	88%
▪ Conduct a minimum of 4 pro-active fraud reviews	4	3 complete	4
▪ Quality measures – average >85% scoring good or better on customer questionnaire	85%	100%	100%

59. Performance against the delivery of the plan for 17/18 is noticeably below the target. As outlined above, the increase in the number of investigations conducted – either solely by IA or in conjunction with service management – has had a detrimental effect on the number of planned audits completed. Whilst this work is productive, because it is unplanned, it is not included in the figures above. In addition, because of the transformational change programmes across the Council some planned audit could not be delivered. Finally staffing shortages at periods throughout the year have impacted on delivery of planned reviews.

60. Customer satisfaction questionnaires scores are seen to be excellent; however work is required to increase return rates (6 surveys were received in 17/18).

61. Internal Audit managers review the performance indicators on a quarterly basis and determine what action can be taken. The performance indicators are also discussed with all audit staff at service planning meetings, to help identify ways

of improving service delivery and performance targets. They are also discussed during the Performance Development Reviews (PDR's) with individuals.

62. Going forward for 18/19 onwards, the Internal Audit PI's have been amended due to the introduction of the Business Partnering call-off resource for use by Portfolios to assist with their change programmes. As outlined in the Internal Audit planning report presented to the Committee in April, an allocation of internal audit resource has been re-assigned from assurance work to offer advice and guidance as change projects occur – we have entitled this **Internal Audit Business Partnering**. By reassigning some of the available resource, we are aiming to take a pro-active, supportive role to assist services in embedding change.
63. As a result of this change, and the consequent issue of this responsive productive work not contributing to the existing PI's, the following PI's will be monitored and reported to the Audit and Standards Committee in next years' annual report:
 - a. % of audit resource spent on productive activities – Target 88%
 - b. No of assurance reviews delivered by June 19 – Target 90
 - c. No of days of business partnering activity delivered by year end – Target 300 days

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

64. The Council has a system of internal control designed to manage risk to a reasonable level. Internal controls cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
65. 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.
66. From the work undertaken by Internal Audit during the year however, I am satisfied that the risk management, governance and internal control framework are adequate to allow the Council to conduct its business appropriately.

FINANCIAL IMPLICATIONS

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

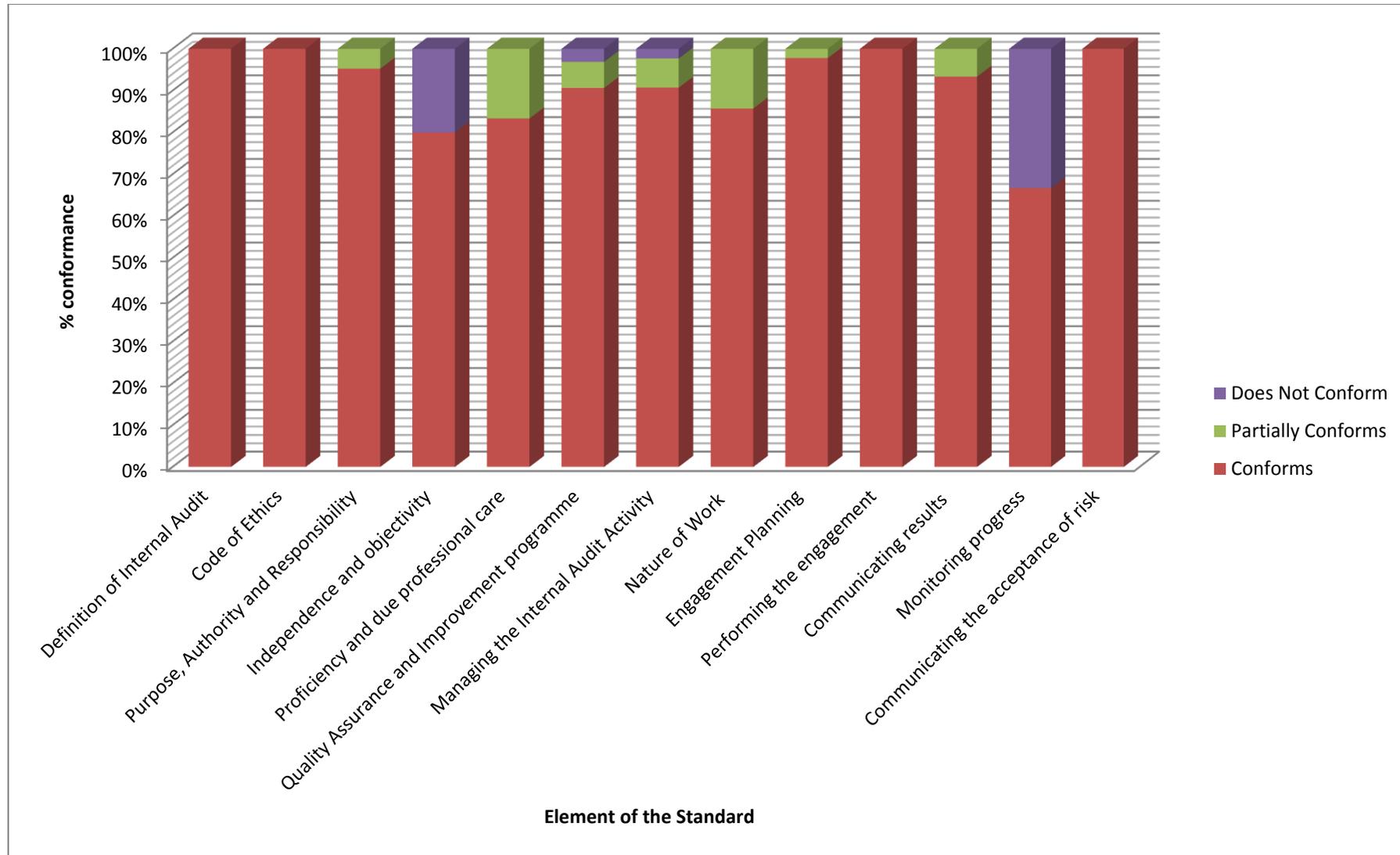
EQUAL OPPORTUNITIES IMPLICATIONS

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

RECOMMENDATIONS

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

Kayleigh Inman
Senior Finance Manager



	Definition	Code of Ethics	Attribute Standards				Performance Standards						
Ref	1	2	3.1	3.2	3.3	3.4	4.1	4.2	4.3	4.4	4.5	4.6	4.7
Partially Conforms			3.1.10i		3.3.41 3.3.46 3.3.52	3.4.73 3.4.74	4.1.84 4.1.93 4.1.103	4.2.121a-c 4.1.123	4.3.133d		4.5.184 4.5.187g 4.5.202i		
Does not conform				3.2.17 3.2.21e 3.2.22 3.2.23 3.2.28 3.2.33		3.4.72	4.1.110					4.6.204	
n/a			3.1.10n 3.1.10o	3.2.29 3.2.32 3.2.36 3.2.37	3.3.48a-c	3.4.77	4.1.88 4.1.98 4.1.99 4.1.116	4.1.127 4.1.128 4.1.131	4.2.135a-c 4.2.136a-c 4.2.137 4.2.145 4.2.146 4.2.147 4.2.154 4.2.155 4.2.156	4.4.169	4.5.185 4.5.186 4.5.188 4.5.190a-c 4.5.200 4.5.202c-e	4.6.206	

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

Introduction

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

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

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

Internal Assessments

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

Ongoing Reviews

Ongoing assessments are conducted through:

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

Periodic Reviews

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

- Quality audits undertaken on a scheduled basis for performance in accordance with Internal Audit's Quality Procedures Manual;

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

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

External Assessment

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

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

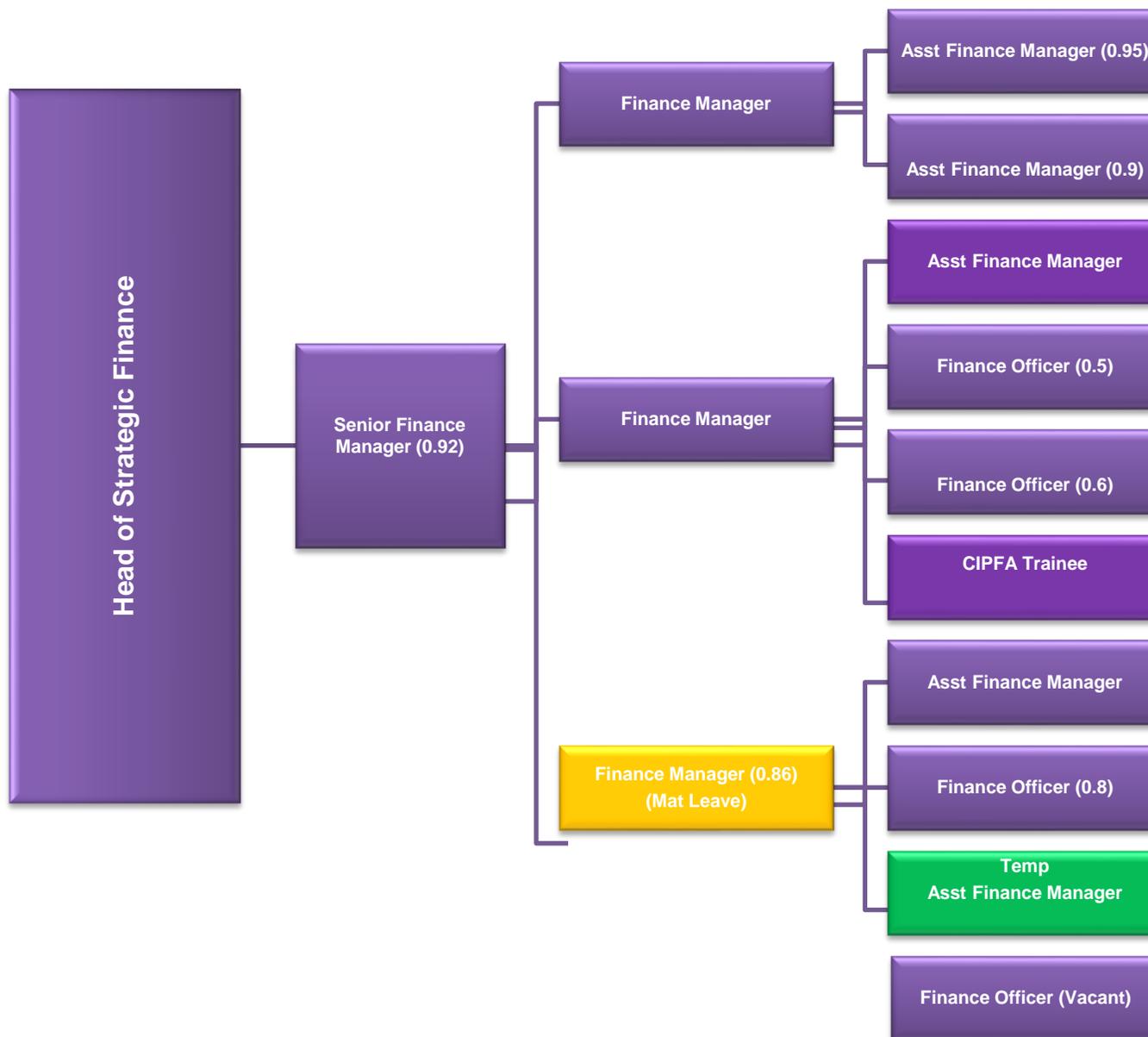
Reporting

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

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

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

Updated July 2017



Summary of the key actions arising from Medium-High Opinion reports issued in 2017/18

Resources

MFS Creditors – P2P Audit Review (b/fwd)

High Priority Actions

- Officers authorising supplier invoices should be reminded of the requirements to obtain/retain proof of delivery;
- All officers authorising the payment of invoices received before the purchase order date should be reminded this contravenes Contract Standing Orders and could result in disciplinary action;
- All orders with a value above the tendering thresholds should be subject to peer review.
- 10% of orders with a value above the threshold for written quotations should be subject to peer review.

Housing Benefit Review (b/fwd)

In 2015/16 new claim assessments and error rate performance targets were not achieved. The error rate performance target was not achieved throughout 2015/16, with quarterly error rates of Q1-11.25%, Q2-13.10%, Q3-13.20% and Q4-15.13%.

No penalties / performance deductions for 2015/16 were made due to commercial reasons.

A review of the error rates for 2016/17 was also undertaken. It identified that the error rate performance target had again not been achieved, with quarterly error rates of 19.3%, 16%, 14.6% and 18.1% respectively.

Discussion with Revenues and Benefits client team management revealed that a rectification plan regarding error rates has been formally requested from Capita. The rectification plan is to be audited in 2017/18.

Achieving Savings Resources Portfolio 16/17 (b/fwd)

Although the year end budget position is forecast to be balanced, this has not been achieved by fully implementing the budget savings agreed by Cabinet at the very start of the budget process.

Within Resources, the overall position was monitored and managed through the implementation of alternative savings proposals. A medium-high opinion is given to reflect the fact that these alternative proposals helped achieve a balanced position.

High Priority Actions

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

Lord Mayors Office and Civic Reception

Whilst it is acknowledged there is a wealth of experience in the Lord Mayor's Office team there is a concern that individual staff are relied upon 'to know' how to organise Civic Receptions and there is a lack of business continuity provision and succession planning in the service.

Staff have adapted to the reduction in budget well and it is evident that savings have been made whilst still trying to ensure the stature of the Lord Mayor's Office when hosting events.

MFS National Non-Domestic Rates (NNDR) System

- All statutory demands raised should meet the appropriate criteria. This should be checked by an appropriate senior officer/manager before a statutory demand is raised.
- The service should continue their close scrutiny and perform their planned review in the final quarter. This will ensure improvements are made by Capita in line with their recommendations and timescales.

Corporate Risk Management

High Priority Actions

- Portfolio Risk Leads should remind all service areas of the requirement for risks to be reviewed on at least a quarterly basis, and this should include updating the Residual Risk Score.
- Risk Management Plans on SharePoint should be kept up to date and accurate as this is a vital source of data upon which management decisions are based.

Credit Card Review

High Priority Actions

- There should be a review of the transaction categories for which the cards can be used (Cash transactions are blocked).
- Cards are being used to purchase items from suppliers where there is a contract in place, contrary to the requirements of the Council for the use of card.
- The cards are being used for travel arrangement, where there is a contract in place; contrary to the requirements of the Council for the use of card.

AIM-AXIS - Application Review – Implementation

High Priority Actions

- Review and update the system's Access Control Policy.
- Reduce the 90 day expiry date for users not logging on to the system.
- Review current active users with system administrator access for appropriateness.
- Explore the capability of the audit log facility and how this can be used for proactive monitoring of the system going forward.
- Explore the need to document the key steps to be undertaken by all users if the system experiences a significant period of downtime.

Pro-Active High Fraud Risk Analysis

Executive Summary

With a highly complex and diverse organisation such as the Council is appreciated that the risk of fraud will never be eliminated, the key is that it is identified and managed in an appropriate manner.

Fraud risk management across SCC has greatly improved over the last 10 years. The introduction of risk management framework and fraud risk management guidance, training and assessments have all contributed to a greater understanding of the risks faced by the Council.

High risk fraud types are predominantly, but not exclusively, found in service areas that handle cash, have remote / off site working and / or work with vulnerable service users.

Over the past two years Internal Audit has noted an increase in the fraud allegations relating to staff working off site. Such allegations include timesheet fraud, inappropriate use of IT, excessive use of non-Council websites and theft. It is not possible to say if this is due to an increased prevalence of this type of fraudulent activity or because the controls in place and particularly whistleblowing are operating more effectively to highlight the cases when they occur.

In some cases service management have had difficulty investigating the cases as basic controls such as timesheets and activity records had not been completed. All staff should

be reminded that such basic correctly completed controls not only protects the council and allows for accurate monitoring of activity to take place, but can also protect individuals from malicious allegations. Also, in relation to off site visits, staff whereabouts must always be known, to ensure their wellbeing and compliance with Health & Safety.

Internal Audit has the delegated responsibility to record allegations of fraud, theft and corruption relating to SCC officers and members on behalf of the Section 151 Officer of the Council. There is still an apparent lack of awareness that allegations must be reported to Internal Audit, as soon as service management are aware of them. Work continues with Human Resources to ensure allegations reported to HR are also then notified to Internal Audit in a timely manner. This is because allegations are often routed through them in the first instance, and are often presented as issues with employees rather than as fraud. Information Management Team has been proactive in notifying Internal Audit of data related potential misconduct cases, where service management and HR have not yet done so.

People

Sheltered Housing (b/fwd)

High priority Actions

- The real time monitoring system should be implemented. This will provide information to confirm that service provision is adequate and provides value for money against the service charge being levied per tenant;
- A review of the service charge should be undertaken to ensure the final charges are accurate and fair.

Care Leavers in Education, Employment or Training (EET)(b/fwd)

At the time of the audit, there is a significant amount of change taking place that could have an impact on the services/support provided to care leavers; Restructuring is taking place across CYPF following its amalgamation into 'Peoples' portfolio, in addition to internal recruitment being undertaken within 'Children and Families' that may result in a new post holder being allocated responsibility for care leavers. There is also an outstanding funding bid, which will have an impact on the way services are delivered, depending on whether this is successful or not.

High Priority Actions

- An 'in date' Corporate Parenting Strategy needs to be finalised and published as soon as possible;
- The local offer for care leavers should be published as soon as possible, and to ensure awareness, should be separately produced and clearly signposted within the Sheffield Council Website and Sheffield Directory;
- the key reporting statistics should be improved to at least the national average, or at least set these as performance targets, with regular monitoring and action taken where necessary;

Better Care Fund Financial and Performance Monitoring

High Priority Actions

- Executive Management Group (EMG) should seek to align the current suite of performance metrics to areas of financial monitoring. This should then enable areas of poor performance to be identified and targeted. (High priority)
- EMG meeting minutes should be more detailed, capturing how the EMG are managing the overspend via the various improvement and recovery boards in place across SCC and the CCG; including work being undertaken by the EMG working group. (High priority)

Independent Sector Provision – Home Care

High Priority Actions

- More robust sample testing on service users' invoices is required
- A Process should be developed to address providers who routinely invoice too much
- More stringent tests are required on temporary additional support
- Penalties should be introduced within for future tender specification/contracts

Community Equipment Pooled Budget Arrangements

Internal Audit note that during the audit, evidence has been seen of action being undertaken by SCC staff to identify areas of high spend, and of proposals being made regarding areas where potentially, savings can be made/achieved. However, these have yet to be fully implemented, and therefore at the present time, there is still an ongoing budget overspend position which has not been addressed, and requires additional SCC funds to 'top up'.

In addition, it has become apparent that the monthly invoices submitted by BRC and paid, have not been fully reconciled/agreed against the transaction documentation provided.

Owler Brook Primary

High Priority Actions

- An appropriately sized deficit license should be obtained.
- Where possible, it is recommended that the school conduct internal stress testing on the budgets and spending plans to determine the impact of various scenarios on the final outturn of the school.
- Only the named cardholder is responsible for the transactions on their procurement card. The school may wish to consider changing the name of the current cardholder or obtaining additional cards in order to overcome the 'shared' card issue.

- The limit on the cards should also be revised so that it is in line with current guidance. Currently, this is recommended at £2,000 per month for Primary Schools.
- The school should ensure that expenditure on catering is not made on procurement cards.
- Use of the Amazon Prime subscription benefits should be limited only to school activities.
- The school should continue to investigate the highlighted erroneous transaction and liaise with Internal Audit to discuss the outcomes and actions taken.

Nether Green Infants

High Priority Actions

- The Headteacher should develop a risk management plan.
- To help strengthen the procurement process, it is recommended that the school:
 - Ensures all PO's are matched with an invoice and GRN. Any occasions where this matching has not taken place within 30 days of the PO being raised should be investigated.
 - Ensure all invoice certification slips are appropriately signed.
 - An appropriate number of quotes are obtained to ensure value for money is met. These limits should be defined in the school's finance policy.
 - Chase suppliers for formal VAT invoices where one has not been provided.
- The named procurement card holder is responsible for the assigned card's use and it should be retained by that named officer in a secure location. A procurement card should not be shared between members of staff.

Social Care Accounts Service - Debt Management Team

Controls to manage operational risks are in place, though some have not been operational for all of the financial year because of the introduction of Integra, and some action has yet to be implemented. Action is required in key areas to ensure that debt recovery activities are carried out in accordance with the Council's Financial Regulations. In other areas, there is scope to improve the operation of controls to ensure the maximisation of income due to the Council and reduce costs.

High Priority Actions

- The SCAS Service Manager should prepare and submit a case for the amendment of Financial Regulations (7.3) relating to the payment of fees and charges.

Social Care Accounts Service – Payments Team

Internal Audit found that SCAS were expected to pay invoices received for care provided, regardless of what the agreed Purchase Request Form (PRF) stated:

- For Home Care, invoices were submitted and paid based on the Real Time Monitoring system information received i.e: time actually spent, irrespective of what had been agreed on the initial care package.
- For Day Opportunities (Framework), invoices for care packages in excess of the amount agreed on the PRF were being paid, as Social Workers could agree extra care, without a requirement to submit a revised PRF.

Of concern was that a decision had been made by senior management within Adult Social Care and Commissioning that providers had been given consent to vary packages by up to 7 hours for up to 6 weeks without reference back to Sheffield City Council.

This has the potential for SCAS to make overpayments where care may not have been provided. Additionally it was not clear what monitoring was undertaken within the payments team to ensure that the time limits etc had not been exceeded.

Both of these scenarios had led to overpayments being made, over and above the original PRF's.

High Priority Actions

- Additional care to be notified and authorised to SCAS
- Monitoring of overpayments to be undertaken via the production of an exception report
- PRF's and invoices should be checked prior to being paid to ensure the amounts being invoiced are as per the care package
- Fraud risks to be identified and managed

Payroll Controls in Schools – Themed Review

All 20 schools sampled provided a completed CRSA questionnaire. Internal Audit has based the majority of the findings on the written detail provided in the CRSA questionnaire, and on occasions supporting evidence.

The responses recorded on a number of CRSA questionnaires had limited supporting evidence with only 12 schools returning any evidence at all. For example, only seven of the responses provided a copy of their SLA with Capita. All 20 sampled schools use Capita as their payroll provider.

The Director of Business Strategy will need to ascertain if this is a representative sample for the schools in Sheffield as a whole and if extrapolated, whether a similar picture would be identified. The reasons for this level of non-compliance identified within the findings/ recommendations in this report also needs to be established, as it could indicate wider issues, for example, training issues, lack of expertise or skills, reduced resources and increased workloads.

High Priority Actions

- Schools should consult their SLAs to ascertain how many days' notice has been agreed and ensure that Capita are delivering this before taking the direct debit.

Section 17

High Priority Actions

- Given the budget position, spending requests should be authorised by appropriate personnel prior to the service/expense being undertaken/incurred;
- SAF's should be logged centrally and accruals raised on Integra to reflect these financial commitments;
- Policies and working practices should be reviewed to establish whether there is any scope to amend the level of financial support being provided whilst adhering to the legal framework;
- Action needs to be taken to address the overspends that are occurring. Detailed guidance on eligible expenditure will help to ensure only legitimate expenditure is funded from S17.

Children and Families Service Improvement Plan

Following from the previous Ofsted Inspection, the service has undertaken a gap analyst to identify the areas where the service had deficiencies and needed to improve. The service has made steady progress in developing and implementing the plan since the initial work. There are still actions that need to be completed, but the plan is showing approximately half of the actions (green) fully implemented. This review was only a snap shot in time and if progress is maintained and all actions are completed, this should ensure that the service will ultimately meet its objectives.

The Service is still projecting a significant overspend to the year end. Part of the role of the action plan is to address these overspends by bringing in new ways of working. The report does not make any recommendations regarding the current overspend as this is intrinsic to the elements of the action plan. When the action plan is completed, this should reduce the level of overspend.

High Priority Actions

- The introduction of SMART targets to allow for better monitoring of progress;
- The recording of meetings where key decision relating to the plan are made.

Place

CCTV (b/fwd)

High Priority Actions

- Establish a register of all CCTV Systems operating across the Council.

- Ensure that all CCTV systems are being operated in line with appropriate law/regulations. Remove CCTV systems that are no longer required/have no cost benefit.
- Review potential for income generation.
- Implement a Corporate process for the procurement of CCTV systems.
- Develop an appropriate model for supporting maintained schools with CCTV systems.

Achieving Savings 16/17 Place Portfolio (b/fwd)

Although the year-end budget position is forecast to be balanced, this has not been achieved by fully implementing the budget savings agreed by Cabinet at the start of the budget process.

Within Place, the overall position was monitored and managed where necessary through the implementation of alternative savings proposals. A medium-high opinion is given to reflect the fact that these alternative proposals helped achieve a balanced position.

Olympic Legacy Park (b/fwd)

Assurances have been provided by the Executive Director of Resources that current proposals, drawn up prior to Internal Audit reporting, will bring about a re-focussing of project strategy and so ensure the re-establishment of those controls. This is reflected in Internal Audit's overall evaluation for the project.

High Priority Actions

- The Council's representative on Legacy Park Ltd (LPL) Board of Directors should work with the company Board to develop and adopt a suitable company Business Plan.
- Whilst acknowledging the autonomy of the LPL company, the business plan should incorporate the relationship with the Council and its objectives, as well as strategies and timescales for achieving those objectives.
- Where a company is acting on behalf of the Council (in this instance, for the delivery of the OLP project), both parties should enter in to detailed agreement formalising all aspects of that relationship.
- The Council should not accept responsibility as Accountability Body for any external funding agreements negotiated by third parties without having had input to the application process.

Integrations of Housing Service – Engagement with TARA's

High Priority Actions

- A TOR for the Community Engagement and Governance Team should be produced for onward circulation to all TARAs.

- The levy formula should be revised.

Homelessness Prevention and Management

High Priority Actions

- Data management controls should be addressed
- Creation of audit trail on key data changes and training notes to be devised
- Trusted Assessors to have data sharing agreements in place
- Security breach policy to be developed and implemented.

Place Change Programme - Implementation Stage

The Audit Opinion was based on a number of issues regarding the Capita Transformation Team contract and performance monitoring. The recommendations related to contractual and governance arrangements for the delivery of subsequent phases of the Place Change Programme, as well as any further contracts awarded to the Capita Transformation Team by the Council. As such, these were referred to Commercial Services management, responsible for future contractual arrangements.

High Priority Actions

- The Capita Implementation Director should be required to address concerns regarding the assumption applied by the contractor's officers in calculating the individual initiative benefits figures.
- PCP governance arrangements should specifically include the monthly monitoring of the contractor's performance.
- The Phase 1 contract, as well as any subsequent Transformation Team contracts, should be sufficiently detailed to provide robust governance arrangements as well as an effective performance monitoring framework.

Programme Boards – Capital Slippage

Since a number of recommendations within this report are of a strategic nature we have allocated these to the Chair of the Capital Programme Group (CPG) so that they can be taken forward for consideration. The operational findings and recommendations have been assigned to Capital Delivery Service (CDS).

High Priority Actions

- Contingency pots, including any savings from tendering, should be allocated to project budgets;
- In-year reported values of slippage are potentially misleading;

- Underspenders should not be used to extend the scope of projects without formal approval;

This page is intentionally left blank