



## Audit and Standards Committee Report

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**Report of:** Kayleigh Inman, Senior Finance Manager (Internal Audit)

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**Date:** 18<sup>th</sup> April 2018

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**Subject:** Internal Audit Tactical Plan 2019/20

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**Author of Report:** Kayleigh Inman

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**Summary:**

The report presents the Internal Audit planning methodology and programme of work for 2019/20.

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**Recommendations:**

In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice (including PSIAS Standards) it is recommended that Members endorse the attached programme of work for 2019/20.

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**Background Papers:**

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**Category of Report:** Open

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\* Delete as appropriate

## Statutory and Council Policy Checklist

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

**REPORT TO SHEFFIELD CITY COUNCIL AUDIT AND STANDARDS COMMITTEE**  
**18<sup>th</sup> April 2019**

**Senior Finance Manager Report – 2019/20 Work Programme**

**Purpose of the Report**

1. The purpose of this report is to present and communicate to members of the Audit and Standards Committee the internal audit plan for 2019/20.

**Background**

2. The strategy for Internal Audit is to focus on areas of high-risk activity in order to provide independent assurance that risk and internal control systems are being properly managed by Directors in service areas.
3. The plan has been developed to ensure sufficient coverage across the Council to inform the overall internal audit opinion, required as part of the Accounts and Audit Regulations. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.
4. Given the current and forecast volume of change for services across the Council, 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. It is vital that portfolios engage with Internal Audit to maximise the use of this resource.
5. The balance of assurance and business partnering work to be undertaken will be reviewed during the year and prior to each annual audit plan. Once major changes are embedded, it is expected that the levels of assurance work will increase, whilst the business partnering reduces.

**Planning Methodology**

6. In order to plan for the use of Internal Audit's resources, the approach is structured to give consideration to the following:
  - Utilisation of the corporate risk management process including the corporate risk register and portfolio risk management plans.
  - Utilisation of the information provided by Directors under the Annual Governance Statement (AGS) process.
  - Areas of highest perceived risk as determined by the Chief Executive/Executive Management Team (EMT)/Executive Director -

Resources/Director of Finance and Commercial Services/Heads of Service within Finance /Senior Finance Managers/ Finance Managers.

- Liaison with and learning from other Core Cities and more general best professional practice.
- The outcomes from the internal audit risk-scoring methodology.

### **Utilisation of the Corporate Risk Management Arrangements**

7. The current risk management process requires service areas to consider risks and either manage and mitigate risks or escalate them up through a process to leadership teams and/or EMT. The information contained within the corporate risk register and portfolio/service risk management plans provide a broad range of risks facing the council and identifies risk controls, costs, escalation process etc. A number of the higher risk rating entries on the registers/risk management plans have been included in the audit plan.
8. Effective from January 2019, the risk management team was moved under the remit of the SFM Internal Audit. There is a close correlation between the work undertaken within the two areas and it is envisaged that closer collaborative working will inform both the scope and content of individual audit reviews and compliance checks regarding adherence to risk management processes.

### **Utilisation of the Annual Governance Statement**

9. The process for collating information for the production of the AGS is managed by Legal and Governance. The AGS returns to which Directors submit and sign up to provide a wealth of information on how some of the most important internal control arrangements are managed within services. Finance Managers (Internal Audit) review this information when identifying areas for the audit plan. In addition Internal Audit will perform a review of the annual governance statement process to provide assurance that it operates effectively.

### **Structure of the Plan**

10. The format of the tactical plan remains the same as last year, with sections for each portfolio (which includes the business partnering allocation), a section for corporate reviews and then resources dedicated to fraud investigation work and statutory main financial system reviews.
11. Each planned auditable area has been reviewed to determine which governance themes from the AGS will be covered within the scope. More than one theme may be included within the scope of a single audit. All

AGS themes are covered to varying degrees and this will help to support the internal audit opinion on the governance, risk and control environment which is provided to the Audit and Standards Committee annually in July.

### **Fraud Allegations (Re-active investigations)**

12. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft and corruption. This has increased slightly due to the additional resources used in this area in 2018/19. Some investigations are carried out directly by Internal Audit and for others Internal Audit provides support to management for them to carry out their own reviews.

### **Pro-active Counter Fraud Work**

13. The National Fraud Initiative (NFI), under the remit of the Cabinet Office, has grown in recent years and will probably continue to expand. It is no longer exclusively focused on housing benefit fraud, as new areas of scrutiny continue to be added e.g. most recently tenancy fraud and abuse of the blue badge scheme.
14. Internal Audit continues to administer the system and oversee the submission of data for the NFI. 2019/20 is primarily a data analysis year, with the data matches having been provided by the Cabinet Office in February 2019. Internal Audit will be ensuring all relevant services receive and understand the data matches made for their areas, and will monitor to ensure these are investigated where appropriate, with results recorded on the NFI System.
15. In addition to the above Internal Audit has six pieces of proactive fraud work planned. These reviews look at activities that are more susceptible, by the nature of what they encompass, to fraud. Internal Audit exam each activity's overall fraud risks to ensure that all of the areas of fraud have been identified. These exercises have been successful in identifying irregularities and weak/inconsistent controls and management arrangements.
16. The work on proactive fraud may subsequently lead to more specific case investigations. Flexibility is therefore required in the use of the fraud investigation resource. Nevertheless, in the event that the volume of fraud allegations increases or a large scale investigation becomes necessary, resources will be transferred from other areas of the internal audit plan.

17. In 2017/18 work began to refresh the fraud awareness e-learning course and this will be launched and added to the Sheffield Development Hub in the early part of 2019/20.

### **Main Financial Systems (MFS)**

18. Internal Audit reviews the key financial systems of the Council every year, and this aspect of the work of Internal Audit is crucial in supporting the S151 officer responsibilities.
19. From April 2018, Internal Audit introduced a cyclical testing regime for the MFS reviews, which will involve a full system review in year 1 followed by transaction testing, which meets External Audit requirements, in year 2.
20. This year, further developments are being investigated to consider the feasibility and benefits of using data analytics to review large-scale data downloads from the key financial systems.

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

21. The resource not utilised on the above elements is devoted to undertaking reviews of the areas of most perceived risk as identified by Internal Audit in consultation with key officers i.e. principally the Executive Director - Resources/Director of Finance and Commercial/Executive Directors and Directors.
22. At the beginning of each audit assignment the relevant Service Manager will also be consulted to ensure that current risk areas are included in the remit for the work.

### **Internal Audit Business Partnering**

23. In 2018/19 an allocation of internal audit resource was re-assigned from assurance work to offer advice and guidance as change projects occur – we have entitled this **Internal Audit Business Partnering**. Given the continued level and scale of change for services across the Council, a similar allocation of resource has been included in the plan for 2019/20.
24. By reassigning some of the available resource, we are aiming to take a proactive, supportive role to assist services in embedding change. It is vital that portfolios engage early with Internal Audit to maximise the use of this allocation. The Executive Management Team have endorsed the level of resource in the Business Partner allocation, and committed to make use of this resource pro-actively.

25. It is proposed that the allocation of resource dedicated to Internal Audit Business Partnering will be reviewed at the mid-year point to establish if this resource is being used effectively. If there is a significant remaining allocation at mid-year, consideration will be given to re-directing this back to the assurance audits from the first call list.

### **Summary of the Audit Plan**

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

<b>Auditable Area</b>		<b>Days</b>	<b>% of the total</b>
Corporate Reviews		20	1
Place	Assurance	187	12
	Business Partnering	25	2
People	Assurance	363	24
	Business Partnering	37	2
Resources	Assurance	456	30
	Business Partnering	56	4
Main Financial Systems	Assurance	96	6
	Business Partnering	10	1
Investigations (*exc reactive allocation)		278	18
<b>Total</b>		<b>1528</b>	<b>100%</b>

<b>Assessed Priority</b>	<b>Outputs</b>
High Priority	63
Medium Priority	9
Low Priority	0
Statutory	12
<b>Total</b>	<b>86</b>

27. Attention is also drawn to the first call list (last page of the plan), which highlights the reviews identified during the planning process which will not be completed in 2019/20. Every effort has been made to add medium priority reviews (scoring less than 500) to the first call list, and maintain all the high priority reviews in the plan. There are 3 high priority reviews on first call however, for all of these there are service-based reasons why an audit review cannot be undertaken in 19/20.

28. The first call list is effectively the 18 month audit plan, as reviews included on first call will be considered for review in the early part of 20/21, assuming they are still relevant.
29. The 2019/20 annual plan is attached at Appendix 1.

### **Future Considerations**

30. Throughout the coming year, Internal Audit will evaluate the plan to ensure we are directing internal audit resources at the main risks facing the authority.
31. It is recommended in the Public Sector Internal Audit Standards that any significant changes to the plan are also reported to the Audit and Standards Committee. As a result, Internal Audit have defined 'significant' as a 15% change to the audits ratified in the April 2018 meeting, and in the event of this level of change, will report to the November Committee.
32. Any reduction or redirection of the Internal Audit Business Partnering resource will also be reported to the Audit and Standards Committee.

### **FINANCIAL IMPLICATIONS**

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

### **EQUAL OPPORTUNITIES IMPLICATIONS**

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

### **CONCLUSION**

35. The audit plan summarises a risk based programme of work which demonstrates that the Council has made provision to discharge its (and officers) statutory responsibilities.

### **RECOMMENDATION**

36. In respect of the provision of the statutory internal audit function and in order to comply with best professional practice it is recommended that members endorse the attached programme of work for 2019/20.