



**Sheffield City Council**

**Finance**

**Internal Audit**

**Senior Finance Manager's  
Internal Audit Annual Report  
2015**

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**24<sup>th</sup> September 2015**

## **REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE**

24th September 2015

### **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 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.

### **Executive Summary of Audit Opinion**

4. From the work undertaken by Internal Audit during the year (2014/15), 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.
5. The council's Annual Governance Statement (AGS) previously circulated to the audit committee (July 2015) includes no areas of significant control weakness. However, there are 6 governance issues where the AGS process identified that further work is required to improve compliance with governance controls.
6. The governance issues were compliance with the Transparency Code, reports in relation to Rotherham Metropolitan Borough Council, fraud risk management, information governance, adult social care, and human resources people management. Officers are responsible for putting in place action plans to address these area and their activities (as in previous years) will continue to be monitored by the audit committee.
7. Internal Audit has undertaken a number of counter fraud investigations involving the housing/council tax benefit claims of households containing council employees. In addition, Internal Audit has investigated or assisted service managers to investigate other allegations of irregularity and associated disciplinary procedures throughout council services (refer to para 43, 73 - 77 for further details).

8. Internal Audit undertook 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.
9. The internal audit service co-ordinated the data submission to the Audit Commission (now Cabinet Office) as part of the biennial National Fraud Initiative (NFI).
10. A total of 6 audit assignments (compared to 13 for 2013/14) 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, and the outcomes of follow-up work are also reported to the audit committee via the high opinion recommendation tracker.
11. From the routine planned internal audit work undertaken and reported upon during 2014/15, management's response to control issues arising from individual reviews has been very positive overall, with actions to further enhance controls being agreed and formally accepted.
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 AGS 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 not aware 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 Acting 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 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”.

### **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, and 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 CIPFA and Chartered Institute of Internal Auditors (CIIA).
17. 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. For the financial year 2014/15 Sheffield City Councils’ Internal Audit service complied with the majority of the requirements of the PSIAS.
18. Positive steps to ensure further compliance with the requirements of the standard are being taken. We are currently exploring the feasibility of ‘peer reviews’ within the core cities chief auditors group for independent external assessments, and are looking to conduct these in 2016/17.
19. The only 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), and the remuneration of the CAE is determined by ‘the board’ (audit committee).
20. At present the Senior Finance Manager (SFM) reports to the Interim Director of Finance, who subsequently reports to the S151 Officer (Acting Executive Director – Resources). This point has previously been brought to the attention of the audit committee. The SFM does have unrestricted access to other senior officers, including the Chief Executive and to the Chair of the audit committee, where required.
21. The reporting arrangements for Internal Audit are in line with those operated in most other local authorities, including all of the core cities. Similarly remuneration is determined as per the human resources pay structure and pay and grading.

22. On an annual basis, members are asked to approve an Internal Audit charter. The charter for 2015/16 is attached at appendix A. It sets out the objectives, framework and services delivered by SCC Internal Audit and details the relationship with the audit committee, our objectives and the statutory requirements.

### **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 assesses the adequacy of any work undertaken by internal audit on which they place reliance.
24. Internal Audit have quarterly 'liaison' meetings with external audit representatives to discuss and share work programmes, progress of work and key findings and recommendations.

### **Internal Audit Resources**

25. Internal Audit had an agreed budget for 2014/15 (which was reduced by 6%) 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
Total	490,000	563,000	(73,000)

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 cities in the past have showed similar results.
27. The core cities comparison has also identified that the coverage per auditor within Sheffield City Council is amongst the highest, with only Liverpool auditors covering more per person (refer to table below).

<b>Core City</b>	<b>£m Net Revenue Costs (NRC) per Full Time Equivalent (FTE)</b>
Liverpool	77.36
Sheffield	74.93
Birmingham	71.6
Newcastle	50.76
Bristol	50.66
Leeds	45.93
Nottingham	42.83

## **Structure**

28. The structure of the section has not changed for 2014/15, with the total being 12.11 whole time equivalents (WTE). The Internal Audit structure has reduced significantly over the last 4 years and 12.11 WTE is considered to be the minimum level the authority can reduce to maintain an 'adequate service'. Unplanned work had a significant impact and during 14/15 when a management review was required within the Communities portfolio; Internal Audit had to pay for an investigator for 4 days a week for 4 months to review this area, as this review could not be accommodated within the reduced audit structure.
29. The current structure of the section is shown in appendix B to this report. It should be noted that within the first quarter of 2015/16, 2.5 WTE officers have been promoted, either permanently or temporarily to other sections within finance. As a result, we had 2.5 (WTE) vacancies within internal audit. Recruitment has been undertaken in August and the section will have a full-time trainee accountant, along with 2 new finance officers (FTE 1.8). This loss of staff in quarter 1 will have an impact on the delivery of the 2015/16 audit plan.
30. 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).
31. The 2014/15 original tactical plan contained 143 reviews. At the mid-year point, 20 reviews were deferred or deleted due to timing issues and/or other priority reviews being identified within portfolios. A further 29 new areas were added to the original tactical plan during the year. The service completed 91% of its agreed work plan. 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 2014/15 financial year.

## **Planning Processes and Performance Monitoring**

32. 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 highest scoring risk areas, the so called 'A' risk audits. However, since the reduction of 37.5% in workforce and increasing financial risk across the authority arising from budget reductions, this approach identified that significant numbers of 'A' rated audits were being excluded from the plan.

33. The table below highlights the reduction in the number of audit days since 2011/12.

	2011/12	2012/13	2013/14	2014/15	2015/16
Total Audit Days	3118	2670	2252	1918	1882

34. The new planning strategy, (presented to audit committee May 2012) commenced for the 2012/13 planning cycle and internal audit work focussed on some specific key areas of activity (i.e. risk management, annual governance statement, performance management framework etc) which could provide assurance that risk and internal control issues are being properly managed by directors in service areas.
35. The 2014/15 tactical plan saw a reduction in the number of audits planned in these areas. This reduction occurred because we adopted a strategic overview approach in the first year (12/13) followed by detailed portfolio testing to validate/confirm the adequacy of internal controls in place in the second year (13/14). We considered the audit coverage in these areas over the last few years was sufficient and therefore, for 2014/15 the number of audits was reduced to 2 compliance reviews.
36. We revised our approach further for 2014/15, to concentrate on key strategic processes and therefore we undertook 4 audits in each portfolio in relation to outcome planning, business planning, budget setting and implementation of savings and directors' assurance.
37. These 4 strategic audits were considered critical and highly sensitive areas to review and therefore the audits were cross cutting and involved interviews and testing across all portfolios and public health. (refer to paras 77-83 for the outcome of these reviews).
38. The audit plan is discussed with senior managers and ultimately agreed with the Acting Executive Director - Resources.
39. 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. The plan is therefore subject to review and amendment during the year to allow the inclusion of any emerging relevant risk issues.
40. 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.

41. Internal Audit has now moved to a 15 month model to measure the completion of the audit plan. The audit plan delivery for 2014/15 is as follows:

<b>Audit Area</b>	<b>Original plan</b>	<b>Revised plan</b>	<b>Completed</b>
Corporate	12	12	10
CYPF	23	27	24
Place	18	22	21
Communities	32	36	29
Resources & ICT	31	29	23
Main Financial Systems & Main Corporate Systems	14	10	8
Benefits	1	1	1
Pro-active Work & Reviews	12	15	14
<b>Total (Planned Reviews)</b>	<b>143</b>	<b>152</b>	<b>130</b>
Investigations			32
<b>Total</b>			<b>162</b>

42. A total of 130 reviews were completed out of a revised plan of 152 or 86%. Using the total number of reviews included in the original agreed plan, 91% of the plan had been completed by June 2015. 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.
43. In addition, Internal Audit completed 7 re-active investigations and assisted managers to conduct a further 25 re-active investigations. Of the 32 investigations, 3 related to benefit investigations\*. 10 of the 32 investigations were ongoing from the previous period, with 22 new referrals. 26 investigations were concluded during this period. There were also 2 resignations and 11 dismissals resulting from these investigations.
- \* It should be noted that since 1st February 2015 all benefit related fraud investigations are now undertaken by the DWP's Single Fraud Investigation Service (SFIS).
44. Internal Audit also co-ordinated the data submission to the Audit Commission (now Cabinet Office) for the statutory biennial NFI (National Fraud Initiative), along with co-ordinating and monitoring the release of the NFI data match work undertaken by other teams across the council.
45. 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**

46. 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.
47. 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.
48. 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.
49. To give an indication of the risk profile, for audits carried out following the standard risk based approach, results were:

High	6 reports
Medium High	34 reports
Medium Low	34 reports
Low	4 reports

In addition, Internal Audit undertook 35 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, 17 pieces of follow-up work were completed during 2014/15, which did not generate a revised audit opinion.

50. 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.

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

51. Internal Audit has a robust process of quality control that ensures that all of the reports produced are of a high and consistent standard.
52. 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 is undertaken annually - 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**

53. 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.
54. In order to formalise this process, Internal Audit has an agreed protocol. This document sets out the roles, responsibilities and processes that have been agreed to deliver the maximum benefit to the council.

### **Reviewing the Service**

55. 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 finance service plan and are shown below.

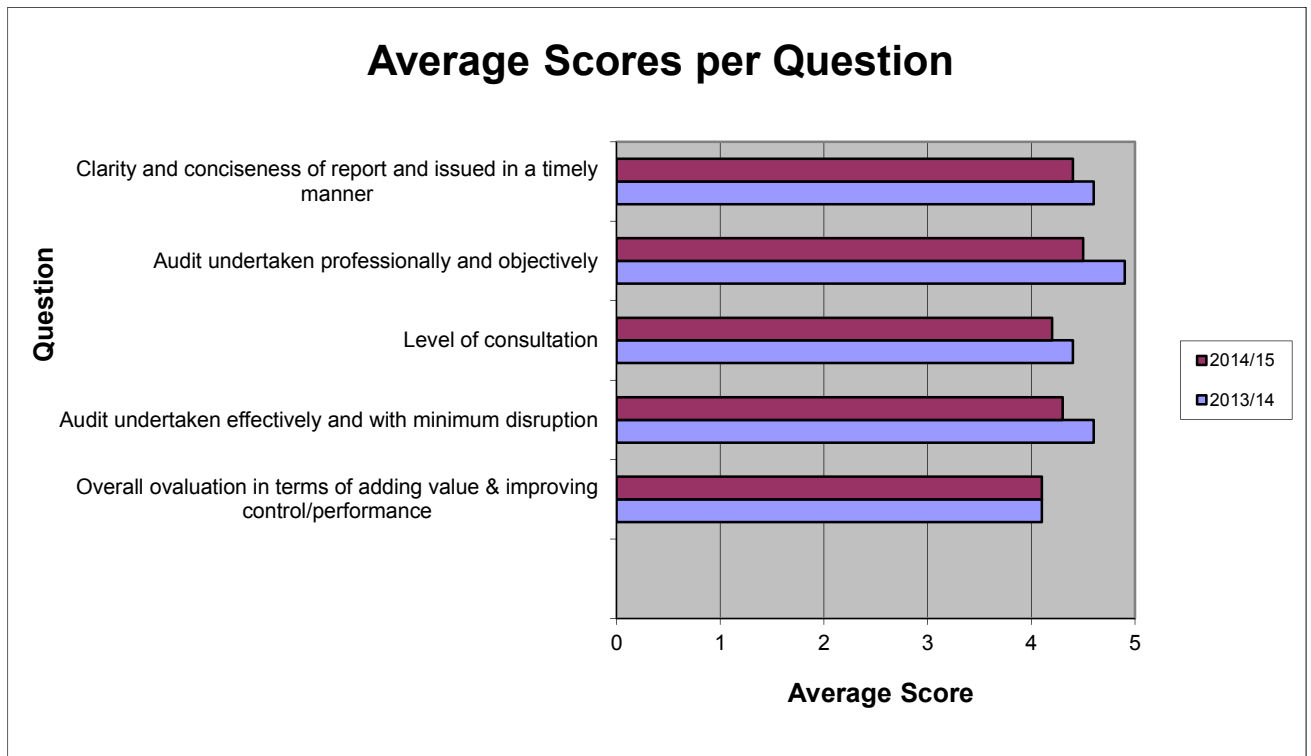
- All audit reports are issued with a standard questionnaire which requests client feedback on a number of aspects of the audit process including usefulness and conduct of the audit (see graph at para 58). The questions are analysed and submitted and used as part of the core cities comparisons.

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

	2014/15 Target	2014/15 Achievement	2013/14 Achievement
<b>PERFORMANCE TARGETS</b>			
▪ Progress work to agreed work programme	90%	91%	86%
▪ Final reports to be issued within 3 months of the terms of reference being agreed.	80%	50%	56%
▪ Quality measures – average >85% scoring good or better on customer questionnaire (for details see graph overleaf).	85%	100%	100%

57. The figures above show we have sustained our 100% positive customer feedback questionnaires and the performance figure for progressing work to agreed work programme has increased to 91%.

58. Customer satisfaction questionnaires scores are seen to be excellent. Any low scores are followed up with the individual service managers and action is taken where appropriate to constantly strive to improve these. A blank copy of the full audit questionnaire is shown at Appendix C.



59. The individual scores for questions when compared with the previous year are slightly lower. However, the overall score is above target and Internal Audit will strive to maintain this position.
60. There was a slight deterioration in the other target area. In response to this deterioration a conscious decision was made by the management team to prioritise completion of the agreed plan over the 3 month target. The timeliness of the reports has been examined and action has been taken to help address the issues, for example through the development of an escalation policy. Changes within portfolios due to spending cuts across the council, staff reductions and changing/increased workloads have had an impact on delivery of final reports within the 3 month target.
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.

### **Summary of Activity**

62. During the year Internal Audit has undertaken risk based audit (RBA) reviews across the broad range of council services. The following sections outline the main blocks of work undertaken that are not portfolio/service specific.

## **Main Financial Systems**

63. 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.
64. The key systems covered are noted below:-

### **Payroll**

This audit covered the controls within the payroll system to ensure payments and deductions are made accurately and are supported with appropriate documentation. The overall opinion given was medium-high, as there was one high priority recommendation that required action. The 15/16 audit will consider progress against the previously agreed recommendations as well as areas from the annual rolling programme. The audit included transaction testing for the combined authority work.

### **Debtors**

This audit covered the controls within the Council's OEO system and reconciliation processes in place. As per our rolling programme, Internal Audit followed up the previously agreed recommendations and a sample of debtor accounts was included. Seven recommendations were made, one of which was high priority, all were agreed. An overall opinion of medium - high was given. The audit included debtors transactions for the combined authority.

### **Creditors – Purchase to payment (P2P)**

This audit covered the P2P process and controls and followed up on the previous year's recommendations. This resulted in four recommendations which were agreed. The overall opinion given was medium-low. The audit included transaction testing for the combined authority work.

### **National Non Domestic Rates (NNDR)**

This audit covered the business rates system in place, and followed up previous years recommendations. A medium – low opinion was given with eight recommendations being made. Of these four were good practice recommendations.

### **Council Tax**

The annual council tax audit concluded with a medium-low opinion, with all recommendations made being agreed.

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

The benefits service, including council tax support, 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 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.

## **Schools**

65. Effective from April 2011, Internal Audit 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.
66. In 2014/15, Internal Audit carried out themed reviews of the following areas :
  - School Improvement Planning
  - Critical Incident Planning
  - Declaration of Pecuniary Interest
  - Business Continuity Planning
  - Cash Handling
67. The Schools Financial Value Standard (SFVS) is in place and is expected to inform the regular internal audit processes of local authorities. Consideration has been given to the questions and responses included within the SFVS when devising themes to review for 2014/15. Also, prior to each themed review commencing, the SFVS self-assessment returns are examined to help select the sample schools to visit.
68. For the 2014/15 financial year, in the Dedicated Schools Grant (DSG) outturn statement, the Interim Director of Finance has given a general assurance that schools have a system of audit in place which gives adequate assurance over school's standards of financial management and the regularity and propriety of their spending.
69. The follow-up process with audit recommendations within schools has been hindered by the lack of engagement from a number of schools. Therefore, for Independent Payroll Providers follow-up review a report was presented to the Schools Forum (19.3.15) to help raise awareness and emphasise the importance of responding to an audit request for an updated position regarding the implementation of recommendations.
70. Going forward, Internal Audit plan to make more use of existing networks such as the Schools Forum and the City Wide Learning Body to impress on schools the importance of complying with audit recommendations.

## **Counter Fraud**

71. During 2014/15 Internal Audit had a part-time member of staff 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.
72. Nationally, housing and council tax benefits are subject to a significant level of fraudulent activity. On 1st February 2015 the team of counter fraud specialists employed by Capita to deter, investigate and sanction incidents that occur within Sheffield, were transferred to the Department for Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). This service is now responsible for benefit fraud investigation.
73. Pro-active counter fraud exercises were undertaken, which were intended to strengthen the council's control framework and maintained links to the police and other statutory investigative services. Additional audits were also undertaken following the outcome of investigation and National Fraud Initiative (NFI) work completed in year, to enable council process and procedures to be sufficiently robust and fit for purpose.
74. 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**

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

## **Strategic Reviews**

77. The strategic outcome planning review examined how the outcome planning processes drives the council in achieving its objectives. This

audit was not a review of controls/probity, it was a review of a process that ultimately reflects the culture of the council and how well portfolios had embraced outcome planning and the challenges it posed for planning across the council.

78. The overall opinion given was high because of the strategic nature of the outcome planning process and because it spanned the breadth of council activity. In many ways the opinion reflects the ambitious nature of the objective, it is a new way of looking at the council (specifically developed for Sheffield) and how it can plan its medium to long term ambitions. It was recognised that the landscape of the council is changing and will continue to do so and that improvements in the process, in line with the recommendations, will take time to embed within the council. The Chief Executive has undertaken to work with the executive management to implement solutions in a suitable timescale.
79. The business planning review considered the process adopted to establish a balanced budget for 2015/16. A forward looking review was undertaken due to changes introduced in the process effective from this financial year. The process for quantifying budget pressures and proposing and challenging budget savings was examined. The overall opinion given was medium-high, again due to the strategic importance of balancing the budget every year. The 2015/16 budget was the fifth year of large-scale budget reductions, which had to be balanced against the desire to preserve the organisations values and outcomes for the city. This makes the business planning process inherently difficult. All those involved in the process recognised that finding savings across the council via a large number of individual schemes is proving increasingly challenging.
80. Given the increasingly difficult resourcing situation, it is recognised by Internal Audit and acknowledged by directors that change is required, and the process behind business planning needs to be amended to identify robust and achievable savings.
81. The budget setting and implementation of savings review examine the success or otherwise of achieving the savings agreed as part of the 2014/15 business planning cycle. Effectively this audit evaluated how well savings agreed to achieve a balanced budget position in 2014/15 had been implemented and what mechanisms existed to identify and rectify any savings that were not on target. Processes for monthly monitoring and reporting were also evaluated.
82. The overall opinion given was medium-high due to the different approaches taken by each of the portfolios to the budgets savings process. The level of information and detail in the savings proposal / project business case / outline business case / equalities impact assessment varied between portfolios. Furthermore, there was a lack of consistency regarding the retention of the information and a lack of ownership by the service for the budget proposals made.



83. The directors' assurance review sought to establish and evaluate the arrangements that enable Executive Directors/Directors to obtain assurance over the discharge of their statutory responsibilities. The overall opinion given was medium-low. This opinion was based on high level interviews with senior management and the provision of limited documentation in support of their comments. These interviews conducted in the main, identified patterns of consistent good practice across the council; however, Internal Audit considers that these processes would be enhanced by the introduction of integrated assurance mapping across all services and portfolios. The directors' assurance report will be provided to the audit committee members as this informs their governance role.

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

84. 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.
85. Two audits were delivered in relation to the AGS process and portfolio testing. These reports were both issued with medium-low opinions; meaning that the controls were in place and were for the most part operating soundly.

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

86. 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.
87. From the work undertaken by Internal Audit during the year however, I am satisfied that the core systems include control arrangements which are adequate to allow the council to conduct its business appropriately.

### **FINANCIAL IMPLICATIONS**

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

### **EQUAL OPPORTUNITIES IMPLICATIONS**

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

## **RECOMMENDATIONS**

90. That the audit committee notes the content of the report and the opinion of the Senior Finance Manager.
91. That the audit committee approve the Internal Audit charter for 2015/16.

**Kayleigh Inman**  
**Senior Finance Manager**

**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 of 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 Interim Director of Finance, who in turn reports to the Director of Resources.

The Senior Finance Manager (SFM) 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 Interim Director of Finance and Senior Finance Manager report 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.

Should the need arise the SFM can report directly to the Executive Director Resources, or the Chief Executive. Reports can also be made to the Chair of the Audit Committee if required.

The SFM 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**

With effect from 1<sup>st</sup> April 2013, the CIPFA Code of Practice for Internal Audit was subsumed into the new Public Sector Internal Auditing Standards (PSIAS). 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 interim 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 interim 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 he concluded that resources were insufficient, he must formally report 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, assigned a high or medium-high opinion 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. Arrangements are in place for Internal Audit to be informed of all suspected or detected fraud, corruption or improprieties. Internal Audit may be requested by management to assist with fraud related work.

Updated July 2015.

## **Code of Ethics**

### **1) Integrity**

#### **Principle**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

#### **Rules of Conduct**

Internal Auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility;
- 1.2 Shall observe the law and make disclosure expected by the law and the profession;
- 1.3 Shall not knowingly be a part to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

### **2) Objectivity**

#### **Principle**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balance assessment of all the relevant circumstances and are not unduly influence by their own interest or by others in forming judgements.

#### **Rules of Conduct**

Internal Auditors;

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement;

2.3 Shall disclose all material facts know to then that, if not disclosed, may distort the reporting of activities under review.

### **3) Confidentiality**

#### Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

#### Rules of Conduct

Internal auditors;

3.1 shall be prudent in the use and protection of information acquired in the course of their duties;

3.2 shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation;

### **4) Competency**

#### Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

#### Rules of Conduct

Internal auditors;

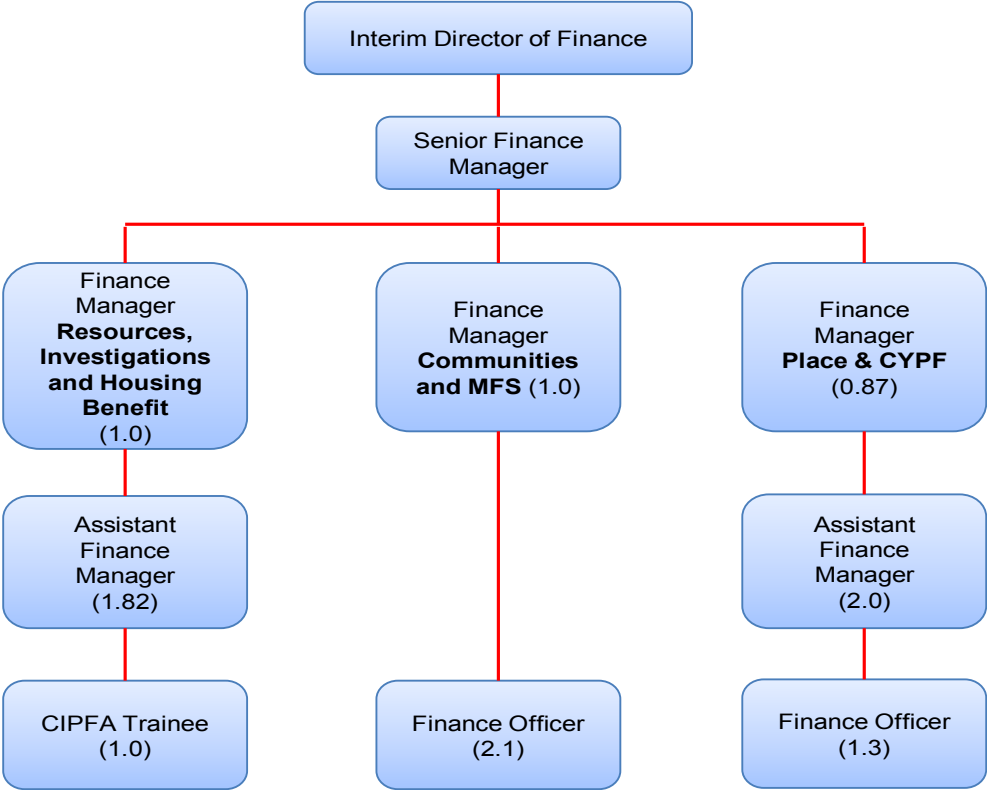
4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience;

4.2 Shall perform internal auditing services in accordance with the International Auditing Standards for the Professional Practice of Internal Auditing.

4.3 Shall continually improve their proficiency and effectiveness and quality of their service.



# Internal Audit



**INTERNAL AUDIT  
POST AUDIT QUESTIONNAIRE**

Audit:

Portfolio:

Date of Issue:

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)