



Audit and Standards Committee Report

Report of: Senior Finance Manager, Internal Audit

Date: 22nd September 2022

Subject: Internal Audit Annual Report 2021/22

Author of Report: Linda Hunter, 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: L Hunter
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

22nd September 2022

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 2021/22, 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 the 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. No audit assignments were given an audit opinion of no assurance for the period 2021/22.
7. We prioritised our resources on supporting the Council and concentrating on emerging systems, procedures and risks. The continuing impact of Covid 19 on public services throughout 2021/22 has been considerable. As a result, the Internal Audit plan needed to be re-active and flexible and although this provided challenges at times, I am satisfied with the audit coverage and outputs.
8. From the routine planned internal audit work undertaken and reported upon during 2021/22, 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. Implementation of

agreed recommendations had improved during 2021/22 as reported to the Audit and Standards Committee.

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. Internal Audit facilitated the distribution and review of data matches received, across numerous service areas, as part of the statutory biennial NFI (National Fraud Initiative) operated by the Cabinet Office.
11. 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 to 49 for further details).
12. A detailed annual report on fraud and investigations was presented to the Audit and Standards Committee in July 2022.
13. The end of year opinion places reliance on assurance provided from other parties and processes, for example the Annual Governance Statement, Risk Management processes and assurance from the work of the External Auditors. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion.
14. 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.
15. The Council's Annual Governance Statement (presented to the Audit and Standards Committee meeting in September 2022) has no areas of significant control weakness. However, there are 2 themed areas (Human Resources and Information Governance) that the Leadership Team wished to monitor the arrangements across the Council (at the Performance and Delivery Board).
16. As the Senior Finance Manager (Internal Audit) I am not aware of any significant control weaknesses that should have been included within the Council's Annual Governance Statement.
17. The approach is to obtain sufficient assurance to support the annual opinion, considering both internal audit work and other sources of assurance. For 2021/22 these sources of assurance also include the attendance and review of minutes from the Information Governance board and Finance Design Assurance group. Through this involvement Internal Audit has an understanding of what the Council is doing to respond and

lead change activity; and the approach being taken all of which adds to this assurance assessment.

18. Extensive grant certification and assurance across a range of Covid related grants and other grant funding streams including the Covid Contain Outbreak Management Fund has been undertaken.
19. Effective communication has remained a key strength; both in engaging residents and businesses during the pandemic and in the engagement of staff. This approach has been sustained throughout the year with strong, active communication of public health messages and provision of online resources to support staff and managers. Communications have been supported through active face to face and virtual engagement and 2021/22 has seen the resumption of larger in-person events including acknowledgement and celebration of the achievements of teams and individuals from across the Council over the last 12 months.

Legislation Surrounding Internal Audit

20. 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 Director of Finance and Commercial Services 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 Director of Finance and Commercial Services 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

21. 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 and codes of conduct for members and officers.
22. The Internal Audit section also has to meet the standards laid down by professional bodies such as CIPFA and the Chartered Institute of Internal

Auditors (CIIA). Refer to Appendix A (Internal Audit Charter) and Appendix B (Internal Audit Quality Assurance and Improvement Programme which outlines our mission, purpose and objectives).

23. The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013 and were 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. The PSIAS standards are now also supported by a CIPFA statement on the Role of the Head of Internal Audit.
24. PSIAS require that an external assessment of every local authority internal audit section is completed every five years. The opinion provided as part of this external assessment in November 2021 was that the Internal Audit section at SCC 'generally conforms', which means the assessor 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. As part of the external assessment November 2021 undertaken by Birmingham City Council, a self-assessment was completed. The self-assessment contained 115 questions and showed compliance with 89 of the standards and partial compliance to 14 of the standard's (noting 12 standards marked as not applicable). The external assessment report from Birmingham City Council did state 'Whilst the self-assessment did identify a number of partial compliance these were considered to have arisen due to the need to align audit practices with the organisation or not sufficiently significant to prevent achievement of the overriding standard'.
26. The results of the external assessment were reported to the December 2021 Audit and Standards Committee, highlighting only 8 minor recommendations. These recommendations formed part of the Quality and Improvement Programme for Internal Audit and all 8 recommendations have now been actioned. As a result of the External Assessment, a Quality Assessment Improvement Plan (QAIP) was produced and maintained. This document is reviewed regularly and an ongoing action is to identify training opportunities which align specifically with new and emerging challenges posed by changes within Council services and new ways of working, and which also support development needs of individual Internal Audit staff.
27. As part of the Public Sector Internal Audit Standards, it is recommended that the Chief Audit Executive (CAE) reports directly to a member of the Senior Management Team. In order for SCC Internal Audit Service to comply with the requirement, from January 2022, the Senior Finance Manager (who is classified as the CAE) now reports to a member of the Senior Management Team (Director of Finance and Commercial Services – S151 officer) and therefore this requirement has been complied with.

28. The Senior Finance Manager (SFM) does also have unrestricted access to other senior officers, including the Chief Executive and to the members of the Audit and Standards Committee, where required.
29. The SFM in Internal Audit has been given management oversight of Risk Management. The revised standards acknowledge that CAEs are often assigned other management areas, and so adequate safeguards need to be introduced to maintain objectivity and transparency. Arrangements to maintain independence and objectivity have been defined and documented for the Council and include measures such as amending the reporting arrangements for audits of the Risk Management function to ensure these audits are not reviewed/overseen by the SFM (designated CAE).
30. It should be noted that the Risk Management team is a compliance function designed to monitor the application of policies and procedures, and so the remit does not conflict with the role of Internal Audit.

Relationship with External Audit

31. The Senior Finance Manager (Internal Audit) attends the quarterly liaison meetings with external audit representatives to discuss and share work programmes, progress of work and key findings and recommendations.

Internal Audit Resources

32. Internal Audit had an agreed budget for 2021/22 as outlined in the table below, which also summarises the end of year budget position.

2021/22			
	<u>Outturn</u>	<u>Budget</u>	<u>Variance</u>
<u>Total</u>	<u>504,501</u>	<u>539,100</u>	<u>(34,599)</u>

33. The underspend for the financial year was as a result of a number of vacancies resulting from the delayed arrival of the appointed staff following the MER process.

Structure

34. The current establishment structure of the section (which includes Internal Audit and Risk Management) is shown in Appendix C to this report. The service currently has 9.19 FTE officers (in addition 1 FTE vacancy), plus 1 CIPFA trainees (placed with Internal Audit on a rotation basis and currently this post is vacant). A number of these officers have taken advantage of the Employee Led Scheme (ELS), buying additional leave or reducing their contracted hours.

35. 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. All of the internal audit team are either professionally qualified or are actively studying for relevant qualifications. The section includes members of the Chartered Institute of Public Finance and Accountancy (CIPFA), Chartered Institute of Management Accountants (CIMA), Chartered Management Accountant (ACMA), Chartered Institute of Internal Auditors (CIIA), and Association of Accounting Technicians (AAT).

Planning Processes and Performance Monitoring

36. 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. Covid 19 restrictions have had a significant global impact. During the year it has been necessary to flex and reprioritise work in order to support the Council's response to the Covid 19 emergency and help ensure that proportionate controls are built within changing systems and procedures. Inevitably the pandemic has had an adverse impact on the delivery of services and Internal Audit. There is no doubt that the impact of the pandemic will continue to influence how the Council operates and the services it delivers to the communities and citizens of Sheffield for the foreseeable future.
37. Lessons learned from Covid 19 have been used to build back better and new arrangements for ways of working and organisational development. Whilst the legacy impact of Covid 19 continues to present a significant risk to residents and businesses across the city, the Council has stabilised core systems and processes and is in a strong position to respond to further change and challenge.
38. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.
39. The audit plan is discussed with senior managers and ultimately agreed with the Executive Director – Resources and the Director of Finance and Commercial Services (S151 officer).
40. The 2021/22 original plan contained 117 reviews. At the mid-year point 12 reviews were deferred or deleted. As this difference equated to less than 15% of the original plan, this did not constitute as a significant change and therefore was not reported to the Audit and Standards Committee.
41. 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 risks.

42. The audit plan delivery for 2021/22 is as follows:

Audit Area	Original plan	Revised plan	Completed	Deferred or Work in Progress (WIP)
Corporate	2	2	2	
City Futures and Operational Services	29	22	19	3 grants deferred
People	34	33	26	3 WIP 4 deferred (1 is a grant)
Resources and ICT	35	34	28	6 deferred (3 are grants)
Main Financial Systems	6	5	4	1 WIP
Benefits / Pro-active Work	11	9	7	2 Deferred
Total (Planned Reviews)	117	105	86	
Investigations undertaken directly			11	
Man't Investigations assisted			28	
Overall Total			125	

43. A total of 86 assurance reviews were completed out of a revised 21/22 plan of 105. The target for the year was to complete 94 reviews, which is the agreed 90% target of the planned 105 reviews. Some reviews were deferred or deleted due to issues that only became apparent towards the end of the year after the mid-year plan had been completed. Engagement of staff during this reporting period has been mixed with conflicting priorities for Portfolio staff. Also 7 deferred pieces of work related to grant work whereby the sign off date was extended by the funder, and therefore out of the control of the Internal Audit Section. Internal audit staff vacancies has also hindered the delivery of service audits.

44. For the audit plan period 21/22 we currently have slightly higher levels of work in progress compared to previous years due to the longer duration and increased time needed for some audits, and the impact of the Covid 19 pandemic and staff working at home arrangements.

45. The Internal Audit Section have been working virtually from home for the entirety of the year being reported upon. This position is currently changing with a 'hybrid' approach being adopted with an estimated 40% of the working week attending the office-based working. This 'hybrid' approach will enhance collaboration.

46. The 2021/22 allocation of resources for Business Partnering has been successfully utilised, and 23 reviews were undertaken at the request of senior managers from within the Council's portfolios.

47. Internal Audit conducted 10 re-active investigations and assisted managers with a further 16 re-active investigations which arose in in 2021/22. Internal Audit also concluded investigation work on 1 re-active investigations and assisted managers with a further 12 investigations which had originated in 2020/21 (delayed due to covid). These cases were from all Council portfolios and included theft of cash or assets. These investigations led to a number of dismissals and other sanctions. The Police were notified and involved where appropriate. Guidance was also provided to management regarding any control weaknesses identified as present in processes or procedures at the time of the incident. A report of fraud-related activity conducted by Internal Audit was submitted to the Audit and Standards Committee in July 2022.
48. Internal Audit facilitated the distribution and review of data matches received, across numerous service areas, as part of the statutory biennial NFI (National Fraud Initiative) operated by the Cabinet Office. The latest data matches were received in February 2021. There were a number of areas which were insourced to the Council and have required additional support to undertake and record this work. Internal Audit monitored progress on investigating the data matching work, as well as spot checked the validity of the work and outcomes to ensure reasonable completion of the exercise. Additional work was also required to submit additional data sets and undertake checking, related to payments made under Covid 19 grants. Internal Audit reported on the outcomes of the fraud work as part of its annual report in this area.
49. Internal Audit ensured that SCC complied with the data privacy requirements and liaised with various SCC services and schools to ensure accurate data was submitted in advance of the NFI deadline. For the first time the Cabinet Office advised that they charge financial penalties to any Local Authority who either submitted poor quality data or submitted data after the given deadline. SCC met the data quality threshold and submitted the data in advance of the deadline, so were not penalised.
50. The Council's Internal Audit Section is a member of the South and West Yorkshire Internal Audit Groups. This facilitates comparisons and the sharing of best practice and includes groups for Heads of Internal Audit, Investigations, Contracts and Procurement, Children's Services, computer specialists and Adults' Services, all of which have continued to meet virtually over the past 30 months. In addition, the Senior Finance Manager (Internal Audit) is also a member of the Core Cities Heads of Internal Audit Group.

Audit Reporting

51. 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.
52. 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.

53. The opinions are expressed as:

Overall Audit Assessment	
Substantial Assurance - There is an effective system of internal control in place designed to achieve the Service objectives with only minor issues being identified which require improvement.	
Moderate Assurance - There is a sound system of internal control in place with some weaknesses being present which may put some of the Service objectives at risk. Issues require management attention.	
Limited Assurance - The system of internal control in place has some major weaknesses which may put the achievement of the Service objectives at risk. Issues therefore require prompt management attention.	
No Assurance - There are significant weaknesses in the system of control which could result in failure to achieve the Service objectives. Immediate management action is therefore required.	

Organisational Impact	
Low	The issues identified have no corporate impact.
Medium	The issues identified have the potential to impact at a corporate level.
High	The issues identified are of high corporate importance. They are either of high financial materiality, present significant business or reputational risk to the Council, have a likelihood of attracting adverse media attention, are potentially of interest to elected representatives, or present a combination of two or more of these factors.

54. 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.

55. To give an indication of the risk profile results were:

No assurance	0 reports
Limited assurance	12 reports
Moderate assurance	15 reports
Substantial assurance	8 reports

56. A dashboard summary of the outcomes from the Main Financial Systems audits has also been produced. One of the eight systems reviewed were given a substantial assurance, four received a moderate assurance opinion and one (Creditors) received a limited assurance opinion. One review was not provided

with an option because this was a VFM piece of work in relation to different payment methods within the Council. The Payroll review is currently at the final stages (draft report stage) and therefore still classed as work in progress. Overall, the dashboard shows that the controls over the majority of the key systems are generally sound (Appendix D).

57. A summary of the key actions arising from all the limited assurance, medium impact reports, are included in Appendix E, as requested by Members.
58. In addition to the above, Internal Audit undertook 28 pieces of productive work across the Council that did not generate an opinion, and therefore does not appear in the breakdown above. These included 3 pieces of follow-up work, 18 grant sign-offs, 6 consultancy pieces of work/attendance at working groups, and the Statement of Financial Values Standards in schools (SFVS) which were collated during 2021/22.
59. A further 23 pieces of work resulted from the Business Partnering resource. A schedule has been included in Appendix F outlining the work undertaken.
60. 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 senior Internal Audit staff, 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.
61. 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.

Annual Governance Statement

62. Under Regulation 4 of the Accounts and Audit (England) Regulations 2011, the Council is required to conduct a yearly review of our system of internal control. This review forms part of the Annual Governance Statement (AGS) that accompanies the accounts each year. Co-ordination of the AGS is undertaken by the Legal and Governance Service; however Internal Audit is actively involved in the review and shortlisting process. This provides an opportunity for the Senior Finance Manager to flag any control non-compliances that may not have been included on the service and portfolio returns.
63. In 2021/22, the AGS stipulated that there were no areas of significant control weakness. However, there are 2 themed areas (Human Resources and Information Governance) that the Leadership team wished to monitor the arrangements across the Council (at the Performance and Delivery Board).

64. Action to strengthen controls in these areas have been devised and agreed and the Monitoring Officer will continue to monitor and report on progress to the Leadership Boards and the Audit and Standards Committee.
65. As the Senior Finance Manager, Internal Audit, I am not aware of any significant control weaknesses that should have been included within the Council's Annual Governance Statement.

Reviewing the Service

66. The team has a number of performance indicators (PI's) which are used to monitor the service delivered.
67. In order to gauge client satisfaction, 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. The questions are analysed and to make service improvements. Feedback continues to be very positive for example 'the auditor made the process effortless and straightforward. She asked the right questions and kept us in the loop along the way. It was a pleasure working with her during this audit' and 'the review was carried out in a very friendly and professional manner. The auditor showed a genuine interest in the service being delivered and I felt comfortable and at ease throughout the whole process. It gave me confidence that our risk management, governance, and internal control processes were operating in line with council policy'.
68. The achievement of the performance targets is shown in the table below:

	2021/22 Target	2021/22 Achievement	2020/21 Achievement
PERFORMANCE TARGETS			
• % of audit resource spent on productive activities	88%	88%	87%
• No of planned assurance reviews delivered	94	86	72*
• No of days of business partnering activity delivered by year end	442	471	408
• Conduct a minimum of 4 proactive fraud reviews	4	4 complete	5 complete
• Quality measures – average >85% scoring 4 or better on customer questionnaire (1 is poor – 5 is good)	85%	96%	70%

*NB the no of assurances reviews undertaken changes annually to reflect resources available in the plan.

69. The productivity PI shows the target has been met on staff productivity. Whilst the team have delivered some different workloads to that planned, it can be seen that the number of chargeable days has been maintained.
70. The delivery of the planned assurance reviews is below the target partly due to staff vacancies, availability of service staff (who had conflicting priorities) and also grant deferrals by the funder which were out of the control of the Internal Audit Section.
71. Customer satisfaction questionnaire scores are seen to be acceptable and excellent results.
72. 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 quarterly 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.

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

73. 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.
74. 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.
75. As noted elsewhere in the report, despite the challenges and changes to work undertaken by the Internal Audit team, I can confirm sufficient work has been carried out to be able to form an opinion.
76. 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.

FINANCIAL IMPLICATIONS

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

EQUAL OPPORTUNITIES IMPLICATIONS

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

RECOMMENDATIONS

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

Linda Hunter
Senior Finance Manager

INTERNAL AUDIT CHARTER

Our mission

Our mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight to our clients.

We will achieve the mission statement through our overall delivery arrangements. This charter sets out how this is done.

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 Director of Finance and Commercial Services (S151 Officer), who in turn reports to the Executive 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 and Standards Committee and 'Senior Management' is defined as the Leadership Team.

The Director of Finance and Commercial Services and Senior Finance Manager report to the Audit and Standards Committee on at least 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 internal audit and risk managers and internal auditors have no operational responsibilities. The Senior Finance Manager has management oversight of the Risk Management and adequate safeguards have been established to maintain independence and objectivity.

The Risk Management team are compliance functions designed to monitor and police the application of policies and procedures and so their remit does not conflict with the role of Internal Audit.

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 and Standards Committee, or any Audit and Standards Committee member if required.

The SFM will confirm to the Audit and Standards 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 and Standards Committee of any 'critical priority' or 'high priority' recommendations that have been rejected by management.

Code of Ethics

All our internal auditors must conform to the Code of Ethics. 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 2015, 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 1st April 2013, the CIPFA Code of Practice for Internal Audit was subsumed into the new Public Sector Internal Auditing Standards (PSIAS).

An external assessment of compliance with PSIAS is required as part of the standard, and the peer review (November 2021) concluded that SCC Internal Audit ‘generally conforms’. This 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.

Any areas of non-compliance are reported to the Audit and Standards Committee.

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 Director of Finance and Commercial Services 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 Director of Finance and Commercial Services 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 Executive Director of Resources.

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 no or limited assurance 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.

Consultancy Activity

Within the risk-based annual audit plan, an allocation of resource is earmarked for Business Partnering activity. This resource enables Internal Audit to offer pro-active advice and guidance at the request of Portfolio management. The resource is available to assist services with change projects, system and process reviews or value for money exercises. Outputs from the Business Partnering resource are reported to the Audit and Standard Committee in the annual report.

Updated August 2022

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.

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

Introduction

Internal Audit's 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 no assurance opinion draft and final reports by the Senior Finance Manager;
- Review and approval of all limited, moderate and substantial opinion draft reports by the Internal Audit and Risk 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.

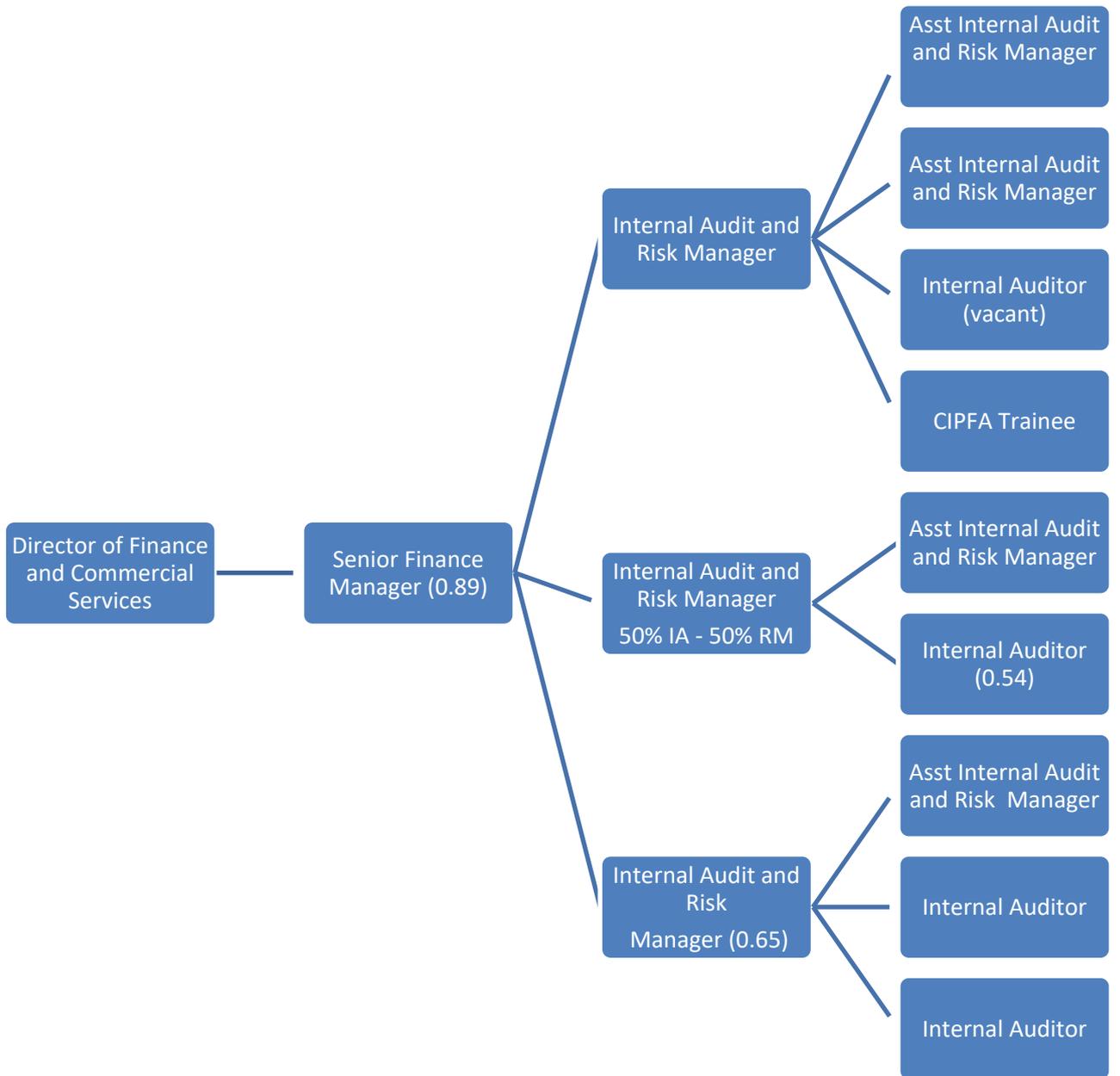
Reporting

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 assessor's 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 August 2022



Main Financial Systems Dashboard

Activity Title	Scope	Assurance Opinion	Organisational Impact
Debtor Controls	Raising accounts, aged debt reduction and dispute resolution and write off processes, KPI's and performance targets and reconciliations.	✓ ✓ ✓ ✓	Medium
Council Tax	Collections and refunds process.	✓ ✓ ✓	Medium
Payroll	Bona fide transactions (starters and leavers) and reconciliation process.		Work in Progress
Business Rates	Bill collection and refunds.	✓ ✓ ✓	Medium
Creditors – review of non-standard payments	Policy, processes, operational delivery and financial and fraud risk controls.	✓ ✓	High
Treasury Management	Policy and procedures, handling of the Councils investment and debt portfolio's, human resources, data security and management of fraud risks.	✓ ✓ ✓	Medium
VFM review of the use of different payment methods	Policy, recording and monitoring and control of the various payment methods.		Not applicable as VFM review
External Funding	Policy, procedures, bidding activity, grant approvals, management information and post award management.	✓ ✓ ✓	Medium

Opinion

<p>No Assurance - There are significant weaknesses in the system of control which could result in failure to achieve the Service objectives. Immediate management action is therefore required.</p>	<p>✓</p>
<p>Limited Assurance - The system of internal control in place has some major weaknesses which may put the achievement of the Service objectives at risk. Issues therefore require prompt management attention.</p>	<p>✓ ✓</p>
<p>Moderate Assurance - There is a sound system of internal control in place with some weaknesses being present which may put some of the Service objectives at risk. Issues require management attention.</p>	<p>✓ ✓ ✓</p>
<p>Substantial Assurance - There is an effective system of internal control in place designed to achieve the Service objectives with only minor issues being identified which require improvement.</p>	<p>✓ ✓ ✓ ✓</p>

Organisational Impact Statement

<p>High - The issues identified are of high corporate importance. They are either of high financial materiality, present significant business or reputational risk to the Council, have a likelihood of attracting adverse media attention, are potentially of interest to elected representatives, or present a combination of two or more of these factors.</p>	
<p>Medium - The issues identified have the potential to impact at a corporate level.</p>	
<p>Low - The issues identified have no corporate impact.</p>	

Summary of the key actions arising from Limited Assurance (Medium Impact) reports issued in 2021/22

Resources Portfolio

Project Post Implementation Review (Limited Assurance, Medium Impact)

Executive Summary

It is not possible to review how the Council undertakes Post Implementation Reviews (PIR) without considering the context of the overarching programme and project management processes currently in operation across the organisation. Senior business change managers have been very open during the course of this audit review, identifying the weaknesses in the Council's current approach to programme and project management (including issues relating to PIR) and detailing the steps that are now being taken to address these issues.

In the past, there has been limited appetite to undertake PIR, driven by the way that business change activity has been funded and the resourcing required to deliver the reviews. Inconsistent business change practices across Portfolios have also made the embedding of a Corporate approach to programme and project management difficult. However, new impetus has been provided by changes to the funding model, and the Council's One Year Plan with the aim of a single business change delivery plan. This provides the opportunity to drive consistency in how business change is managed across the organisation and embed this fully.

The recommendations that have been made recognise the work that is already ongoing and the steps to be taken to achieve the embedding of PIR practice across the Council for the future.

Critical Recommendation:

- A consistent approach to project and programme management should be embedded across the Council following a formal review of how business change is managed across Portfolios.

High Priority Recommendations:

- Timescales should be set for the completion of the review that is currently being undertaken of PIR templates/documentation. The templates should be made available to all business change staff across the Council and should detail roles and responsibilities in relation to PIR.
- The new single benefits framework should be used in conjunction with all future PIR to ensure that key business change objectives have been met.
- Examples of lessons learnt activities that have taken place within Portfolios should be shared with the EPO (Enterprise Programme Office) so that best practice can be utilised in the future/included in the Corporate process.
- The resources required to undertake PIR should always be factored into programme/project management plans so that PIR is embedded within the Corporate process. All PIR should be undertaken in line with the Corporate process.
- Management should explore options for the central storage of all PIR.
- The review of previous lessons learnt/PIR should be factored into the Council's programme/project management process. Consideration should also be given to

how lessons learnt can be communicated most effectively amongst business change staff/teams quickly and efficiently when programmes/projects end.

- Management should now establish how the outcomes of PIR will be formally reported through the Council's new structures (leadership boards etc).

City Futures and Operational Services Portfolio

Management and Implementation of the Community Investment Levy (CIL) (Limited Assurance, Medium Impact)

Executive Summary

Internal Audit confirmed that by and large, there was a robust system of control in place for the administration of CIL. Notwithstanding this, however, there were significant issues impacting on the collection of income and use of funding. Management was aware of the majority of these issues and actions had been put in place to address them. Early implementation of the actions, together with the remaining Audit Recommendations will ensure that associated risks will be effectively mitigated.

High Priority Recommendations:

- Service Planning for CIL.
- Development of the Local Plan and Infrastructure List.
- Continuity and resilience regarding the CIL manager post.
- Creating effective separation of duties in the CIL income systems.

People and Place Portfolio (cross Portfolio review)

Community Safety Teams - Anti-Social Behaviour (Limited Assurance, Medium Impact)

Executive Summary

Since the Anti-Social behaviour service was set up in October 2020 as part of the Community Safety Team, operational activities had continued as previously. This was pending a new structure and processes that were currently being implemented. Internal Audit have therefore reviewed plans for the new approach and not the detailed operational activity.

The Service also facilitate the Safer Sheffield Partnership, and this was found to have well-defined plans and objectives and met the legal requirements of the Council and partners under the Crime and Disorder Act 1998. The team therefore have clear aims and key priorities.

Internal Audit identified some risks and concerns as the new team and ways of working are not yet fully in place, but it is anticipated that these can be adequately addressed as part of the implementation.

High Priority Recommendations:

- Securing professional services.
- Defined managerial objectives.
- KPI's/Performance Measures.
- Ensuring security of sensitive data.

- Developing procedural guidelines.
- Inclusion of appropriate risks into the Risk Register.

People Portfolio

Holgate School (Limited Assurance. Medium Impact)

Executive Summary

The governing body is collectively responsible for the overall direction of the school and its strategic management. Effective governance stems from corporate decision-making based on comprehensive and accurate information about the school. There was limited evidence that the current structure of the governing body provides adequate opportunity for governors to receive sufficient comprehensive and accurate information to discharge their responsibilities with respect to the financial management of the school.

It is important to understand that the governing body has a statutory responsibility for the oversight of financial management in the school. This involves determining the guiding principles within which the school operates and then making decisions about, for example, how to spend the school's budget.

It was not clearly demonstrated that the school's administrators were made aware of any strategic direction set by the school's governing body. This meant that budget setting and financial reporting often did not receive the focus needed to ensure agreed targets and school improvement plans received adequate resources.

During the visit internal audit noted multiple areas of considerable internal control weaknesses across most agreed risk areas. These act to weaken the accountability for the performance of the school and remove checks and balances needed to demonstrate robust financial management.

Financial planning is an essential part of good financial management. It provides a school with a clear view of how it intends to use its resources. It has two interrelated elements: the school's improvement plan and the school's budget. During the audit visit, the links between these two elements were assessed to be suboptimal with multiple areas which could improve.

Another example is budget monitoring. This involves producing monthly monitoring reports and drafting proposed plans of action to tackle any significant variances. Bursar reports were produced on a monthly basis but there was no reporting or discussion of these by the school leaders and the governing body. By receiving regular reports, the governing body can feel secure about the way their decisions are being implemented and act where it is needed to bring about changes.

High Priority Recommendations:

- It is recommended that the quality and frequency of financial reporting to the Interim Executive Board (IEB) is improved. And that the IEB dedicates more time to considering this financial information.

- As part of the annual budget setting process the school's leadership team should engage in preliminary discussions of what the priorities of the school are so that budgets can be agreed in line with this.
- The school should develop a detailed deficit reduction plan which is presented to and challenged by the governing body on a regular basis.
- The principal should consider which budget setting methodology would best fit the school and work with their governing body, administrative officers, and bursars to establish which principles will be used to set and monitor future budgets.
- The school should always issue official, prenumbered receipts or maintain other formal documentation for all income collected. Receipts should be securely stored in order.
- The school should develop a standardised policy on risk assessments for school trips.
- A critical incident plan should be drawn up from existing policies and reviewed and updated regularly by the governing body.

Heritage School (Limited Assurance, Medium Impact)

Executive Summary

The governing body is collectively responsible for the overall direction of the school and its strategic management. Effective governance stems from corporate decision-making based on comprehensive and accurate information about the school. There was limited evidence that the current structure of the governing body provides adequate opportunity for governors to receive sufficient comprehensive and accurate information to discharge their responsibilities with respect to the financial management of the school.

It is important to understand that the governing body has a statutory responsibility for the oversight of financial management in the school. This involves determining the guiding principles within which the school operates and then making decisions about, for example, how to spend the school's budget.

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During the visit internal audit noted multiple areas of considerable internal control weaknesses across most agreed risk areas. These act to weaken the accountability for the performance of the school and remove checks and balances needed to demonstrate robust financial management.

Financial planning is an essential part of good financial management. It provides a school with a clear view of how it intends to use its resources. It has two interrelated elements: the school's improvement plan and the school's budget. During the audit visit the links between these two elements were assessed to be suboptimal with multiple areas which could improve.

Another example is budget monitoring. This involves producing monthly monitoring reports and drafting proposed plans of action to tackle any significant variances. Bursar reports were produced on a monthly basis but there was no reporting or discussion of these by the

school leaders and the governing body. By receiving regular reports, the governing body can feel secure about the way their decisions are being implemented and act where it is needed to bring about changes.

Critical Priority Recommendations:

There were critical priority recommendations contained within the report which required immediate management attention to rectify as they may have a serious impact on the operation of key internal systems.

- It is recommended the school develop a detailed deficit reduction plan which is presented to and challenged by the governing body on a regular basis.
- It is recommended all Human Resource documentation is filed in the appropriate employee file promptly following completion.

High Priority Recommendations:

- It is recommended that the quality and frequency of financial reporting to the IEB be improved. And that the IEB dedicates more time to considering this financial information.
- As part of the annual budget setting process the school's leadership team should engage in preliminary discussions of what the priorities of the school are so that budgets can be agreed in line with this.
- The school principal should consider which budget setting methodology would best fit the school and work with their governing body, administrative officers, and bursars to establish which principles will be used to set and monitor future budgets.
- The school should always issue official, prenumbered receipts or maintain other formal documentation for all income collected. Receipts should be securely stored in order.
 - a. Contributions should be kept separate from petty cash at all times.
 - b. The school principal should reconcile monthly/termly or as agreed with the governors the sums collected with the sums deposited at the bank.
- Access to petty cash should be limited to one administrative officer.
- Where petty cash vouchers are non-sequentially numbered reasons for this should be investigated and recorded.
- The school should develop a standardised policy on risk assessments.
- A critical incident plan should be drawn up from existing policies and reviewed and updated regularly by the governing body.

Libraries and Archives Traded Services (Limited Assurance, Medium Impact)

Executive Summary

As a result of the audit undertaken in the service in Winter 2021/22, several recommendations have been made surrounding the savings targets, plans and Stakeholders.

Internal Audit found that work was needed on creating a fit for purpose Risk Register and Risk Management Plan and updating the Business Continuity Plan in place. Recommendations on how to improve these areas have been made.

The service was found to have excellent controls in place with regard to how standards were monitored and regular discussion within teams to ensure efficiency.

High Priority Recommendations:

- Risk Registers and Risk Management Plans.
- Equalities Impact Assessments.
- Permanent solution for achieving agreed budget savings.

Business Partnering Activities

Finance Design Assurance (FDA) Group
Schools Annual Report 21/22
Standards and Policy Group
Direct Payments enquiry
Quality Assurance Review of Internal Audit
PSIAS Peer Review
Executor Services – High Value cases review
Finance and Commercial Services Risk Advice
Access confidential data in relation to benefits clients
Fraud annual report 21/22
Standards Complaints review
Payment Card Industry review
BCIS review of how application reviews are conducted under the new service arrangements
Information Governance Board
Data Quality – Social care – 2 separate reviews and briefing papers
Best Value of Financial Resources review
Adult Social Care (ASC) - Demand Forecasting review
SharePoint site review
Care Home Financial Assessments
VER/VS corporate process advice and guidance
Disabled Facilities Grant compliance with Financial Regulations
NFI - Data Responses, Council Tax SPD and Covid grants

Grants/Account sign-off

Lord Majors Charity Account
Talbot Annex G sign off
Adoption Support Grant
Holiday Activity (Easter grant) and Food Programme sign off
Dobcroft Annex G sign off
Local Authority Bus Subsidy Grant sign-off
Building Successful Families (BSF) – 2 separate claim periods
Disabled Facilities Grant sign-off
Moor Markets Recharges
Flood Resilience grant sign off
Protect and Vaccinate grant sign off
Transport Infrastructure Investment Fund (TiiF) Potholes grant sign off
Local Transport Partnership grant sign off
Business Grants Post Assurance Reviews
OMRICON Leisure and Hospitality Grant sign off
Restart Grant sign off

Investigations

Investigation Advice to Management
Fraud Report

