

Audit and Standards Committee Report

Title of Report:	Internal Audit Annual Report 23/24
Date of Decision:	17 th October 2024
Report To:	Audit and Standards Committee
Report Of:	Philip Gregory – Director of Finance and Commercial Services/ Local Authority Section 151 Officer
Report Author:	Linda Hunter – Senior Finance Manager – Internal Audit and Risk Management
Executive 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).

Does the report contain confidential or exempt information? No

Recommendation:

The Audit and Standards Committee is recommended to:

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

Financial Implications: No - [Approved by: N/A]

Legal Implications: No - [Approved by: N/A]

Equality and Inclusion Implications: No [Approved by: N/A]

Climate Change Implications: No [Approved by: N/A]

Background Papers: None



Appendices:

A - Internal Audit (IA) Charter

B - IA Quality Assurance and Improvement Programme

C - Internal Audit Structure

D - Main Financial Systems Dashboard

E - Summary of the key actions arising from Limited Assurance (Medium Impact) reports issued in 2023/24

F - Business Partnering Activities



REPORT TO SHEFFIELD CITY COUNCIL AUDIT AND STANDARDS COMMITTEE

17th October 2024

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 ended 31 March 2024. The report provides a review of the performance of Internal Audit for the year 2023/24, 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 the Chief Audit Executive (Senior Finance Manager, Internal Audit) provides an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control).
3. This is achieved through a risk-based plan of work, agreed with management and approved by the Audit and Standards Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.
4. 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. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.
5. The 2023/24 Internal Audit Plan, approved by the Audit and Standards Committee, included 98 audits. 90 audits were delivered, with 8 still work in progress. Reasons for variations in the plan were reported to the Audit and Standards Committee.
6. 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.
7. 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.
8. The Council's Annual Governance Statement (due to be presented to the Audit and Standards Committee in November 2024) has no areas of significant control weakness. However, there are 2 governance themed areas (Human Resourcing and Information Governance) where senior management wish to monitor arrangements through individual improvement plans (via the Corporate Assurance Board).



9. The approach to forming an overall opinion is to obtain sufficient supporting evidence, considering both internal audit work and other sources of assurance. For 2023/24 these sources of assurance also include the attendance and review of minutes from internal boards as well as external sources of assurance. This includes Ofsted reports, the Corporate Governance Project (undertaken by a Strategic Delivery adviser) and the Information Commissioners Office review (ICO). 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.
10. The Strategic Leadership Team 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.
11. The Council's Internal Audit function is a member of the South and West Yorkshire Internal Audit Groups. This facilitates the sharing of best practice and includes groups for Heads of Internal Audit, Investigations Group and Annual Governance Statement Group. In addition, the Senior Finance Manager (Internal Audit) is also a member of the Core Cities Heads of Internal Audit Group, and also a member of the Core Cities Risk Management Group.

Executive Summary of the Audit Opinion

12. 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. I can give an overall reasonable (positive) assurance opinion for the year.
13. This reflects that the overall governance, financial management arrangements and core systems and processes within the Council remained largely effective. The Council continues to respond to a wide range of risks and issues with areas for further improvement identified through audit and other assurance work, but these are counter balanced by a number of key strengths.
14. Assurance can never be absolute. The opinion reflects the view of the Senior Finance Manager (Internal Audit) on the current state of the governance framework. The opinion does not imply that internal audit has reviewed all risks, controls or governance arrangements.

The 2023/24 Internal Audit Service

15. The in-house internal audit team currently has 10.1 FTE officers, plus 1 CIPFA trainee (placed with Internal Audit on a rotation basis), plus 1 vacant post (currently under recruitment). The structure of the team is shown in Appendix C.
16. The Internal Audit team strives to maintain high professional standards by employing and training appropriately qualified staff who are members of or actively studying for professional qualifications. The team 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).

17. The team has a number of performance indicators (PI's) which are used to monitor the service delivered.

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

PERFORMANCE TARGETS	2023/24 Target	2023/24 Achievement	2022/23 Achievement
% of audit resource spent on productive activities	88%	91%	92%
No of planned assurance reviews delivered	88	90	91*
No of days of business partnering activity delivered by year end	455	445	524
Conduct a minimum of 4 proactive fraud reviews	4	4	4
Quality measures – average >85% scoring 4 or better on customer questionnaire (1 is poor – 5 is good)	85%	95%	100%

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

19. The productivity PI shows the target has been met on staff productivity. Whilst the team have delivered some different workloads to that planned, the number of chargeable days has been maintained.

20. The delivery of the planned assurance reviews is on target even though the audit team experienced (on occasions) difficulties with the availability of service staff (who had conflicting priorities).

21. 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 responses are analysed to make service improvements.

22. The Senior Finance Manager (Internal Audit) is the Council's Chief Audit Executive and splits her time between Internal Audit, Counter Fraud and Risk Management.

2023/24 Internal Audit work conducted

23. A report is submitted to the Audit and Standards Committee in April each year to outline the annual plan. 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.



24. From the routine planned internal audit work undertaken and reported upon during 2023/24, 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 2023/24 as reported to the Audit and Standards Committee.
25. The 2023/24 original plan contained 114 reviews. At the mid-year point 16 reviews were deferred or deleted. Some audits were deferred at the request of the service area, but also managed alongside a long term sickness absence and staff vacancy. 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.
26. 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.

Progress against the audit plan

27. We prioritise our resources on supporting the Council and concentrating on emerging systems, procedures/processes and risks. During the year it has been necessary to flex and reprioritise work in order to support the Council's emerging risks/issues and help ensure that proportionate controls are built within changing systems and procedures.
28. The audit plan delivery for 2023/24 is as follows:

Audit Area	Original plan	Revised plan	Completed	Deferred or Work in Progress (WIP)
Corporate	4	3	2	1 WIP
City Futures	7	6	4	2 Deferred
Neighbourhood Services	22	20	18	1 WIP 1 Deferred
Children Services	30	25	28	
Adult, Wellbeing and Care Services	10	8	4	1 WIP 3 Deferred
Strategic and Enabling Services	27	23	21	2 WIP
Public Health and Integrated Commissioning	1	1	1	
Main Financial Systems	5	5	6	



Investigations	8	8	6	3 WIP
Total (Planned Reviews)	114	98	90	8 WIP
Investigations undertaken directly			26	
Management Investigations assisted			27	
Overall Total			143	

29. A total of 90 assurance reviews were completed out of a revised 23/24 plan of 98. The target for the year was to complete 88 reviews, which is the agreed 90% target of the planned 98 reviews. Six 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 Directorate staff. Internal audit staff vacancies has also hindered the delivery of some service audits.
30. The 2023/24 allocation of resources for Business Partnering has been successfully utilised, and 27 reviews were undertaken at the request of senior managers from within the Council's Directorates.
31. As the Chief Audit Executive, 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.

Results of the Internal Audit work

32. All Internal Audit reports are given an overall opinion which assesses the level of assurance in the systems of internal control that have been tested as well as a consideration of the impact on the organisation.
33. 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.

34. 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.
35. 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.
36. To give an indication of the risk profile, the completed audits showed the following assurance levels:
- | | |
|-----------------------|------------|
| No assurance | 4 reports |
| Limited assurance | 6 reports |
| Moderate assurance | 16 reports |
| Substantial assurance | 3 reports |
37. Four audit assignments were given an audit opinion of no assurance during 2023/24. These audits will be subject to follow-up reviews to assess progress implementing agreed recommendations. The outcomes of the follow-up work are reported to the Audit and Standards Committee via the recommendation tracker.
38. A summary of the key actions arising from all the limited assurance, medium impact reports, are included in Appendix E.
39. A dashboard summary of the outcomes from the Main Financial Systems audits has been produced (Appendix D). Four of the seven systems reviewed were given a moderate assurance opinion, one received a limited assurance opinion (Debtors - Refunds) and one received a no assurance opinion (Council Tax – Care Leavers). Overall, the dashboard shows that the controls over the majority of the key systems are generally sound.
40. Internal audit staff undertook extensive grant certification and assurance across a range of grant funding streams including the Rough Sleepers Initiative Grants, Holiday Activity and Food Grants and Disabled Facilities Grant.



41. In addition to the above, Internal Audit undertook 34 pieces of productive work across the Council that did not generate an opinion, which does not appear in the breakdown above. This included 6 pieces of follow-up work, 24 grant sign-offs, 3 consultancy pieces of work, and the production of the Statement of Financial Values Standards in schools (SFVS) during 2023/24.
42. A further 27 pieces of work resulted from the Business Partnering resource. A schedule has been included in Appendix F outlining the work undertaken.
43. 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, and where the risk is significant this will always be escalated to senior management. Ultimately non-agreement of recommendations can be reported to the Audit and Standards Committee to enable managers to justify their actions.

Results of Fraud Investigation work

44. 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.
45. A detailed annual report on fraud and investigations will be presented to the Audit and Standards Committee in October 2024.
46. Internal Audit conducted 24 re-active investigations and assisted managers with a further 21 re-active investigations which arose in in 2023/24. Internal Audit also concluded investigation work on 2 re-active investigations and assisted managers with a further 6 investigations which had originated in 2022/23. These cases were from all Council Directorates and included theft of cash or disappearance of assets, falsification of timesheets, and behaviour breaching standards within the Code of Conduct. The types of frauds identified within the Council mirror those found nationally. South Yorkshire Police were notified and involved where appropriate.
47. Following investigation, appropriate sanctions were applied where the issues were found to be proven. This resulted in several dismissals / resignations. In some cases, it was also found that there was no or insufficient evidence of fraud for action to be taken.
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 January 2023. 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. Internal Audit reported on the outcomes of the fraud work as part of its annual report in this area.



Legislation Surrounding Internal Audit

49. Internal Audit is a key contributor to the overall management and control of the Council and its stewardship of public money. The Internal Audit section is part of Finance and Commercial Services, which contributes to satisfying the statutory responsibilities of the Director of Finance and Commercial Services as Section 151 Officer.
50. 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.
 - The Accounts and Audit (England) Regulations 2015 section require that: a relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.

Professional Requirements

51. 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 officers.
52. The Internal Audit function 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).
53. 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 also supported by a CIPFA statement on the Role of the Head of Internal Audit. These standards are relevant for this reporting period 2023/24.



54. The Global Internal Audit Standards (released January 2024) come into effect from January 2025 and the Internal Audit team are reviewing these new standards and adopting new practices during the next few months to ensure compliance. The standards guide internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the standards are 15 guiding principles that enable effective internal auditing. The current International Standards mentioned above remain approved for use during this transition period. It is anticipated that CIPFA will issue an update to the PSIAS. Any subsequent changes to the UK's PSIAS will be subject to consultation and will apply from 1 April 2025.
55. 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.
56. The results of the external assessment were reported to the December 2021 Audit and Standards Committee, highlighting 8 minor recommendations which have 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.
57. 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. The Senior Finance Manager (who is classified as the CAE) reports to a member of the Strategic Leadership Team (Director of Finance and Commercial Services – S151 officer).
58. The Senior Finance Manager (SFM) has unrestricted access to other senior officers, including the Chief Executive and to the members of the Audit and Standards Committee, where required.
59. 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).
60. 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

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

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 directorate returns.
63. In 2023/24, the AGS stipulated that there were no areas of significant control weakness. However, there are 2 governance themed areas (Human Resourcing and Information Governance) that the Leadership Team wished to monitor the arrangements across the Council through individual improvement plans (at the Corporate Assurance 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.

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

66. 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.
67. 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.
68. 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.



69. 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. I can give an overall reasonable (positive) assurance opinion for the year.

RECOMMENDATION

70. 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



APPENDIX A

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 Strategic and Enabling Services. The Senior Finance Manager (Internal Audit) reports to the Director of Finance and Commercial Services (S151 Officer), who in turn reports to the Chief Operating Officer.

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 no assurance and limited high impact 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 Chief Operating Officer, 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. 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 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.

The Global Internal Audit Standards (released January 2024) come into effect from April 2025 and the Internal Audit team are reviewing these new standards and adopting new practices during the next 6 months to ensure compliance. The standards guide internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the standards are 15 guiding principles that enable effective internal auditing. The current International Standards mentioned above remain approved for use during this transition period.

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 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 Chief Operating 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 no or limited assurance opinion are subject to a follow-up, arranged 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 Directorate 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 2024



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 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;
- Regular 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.

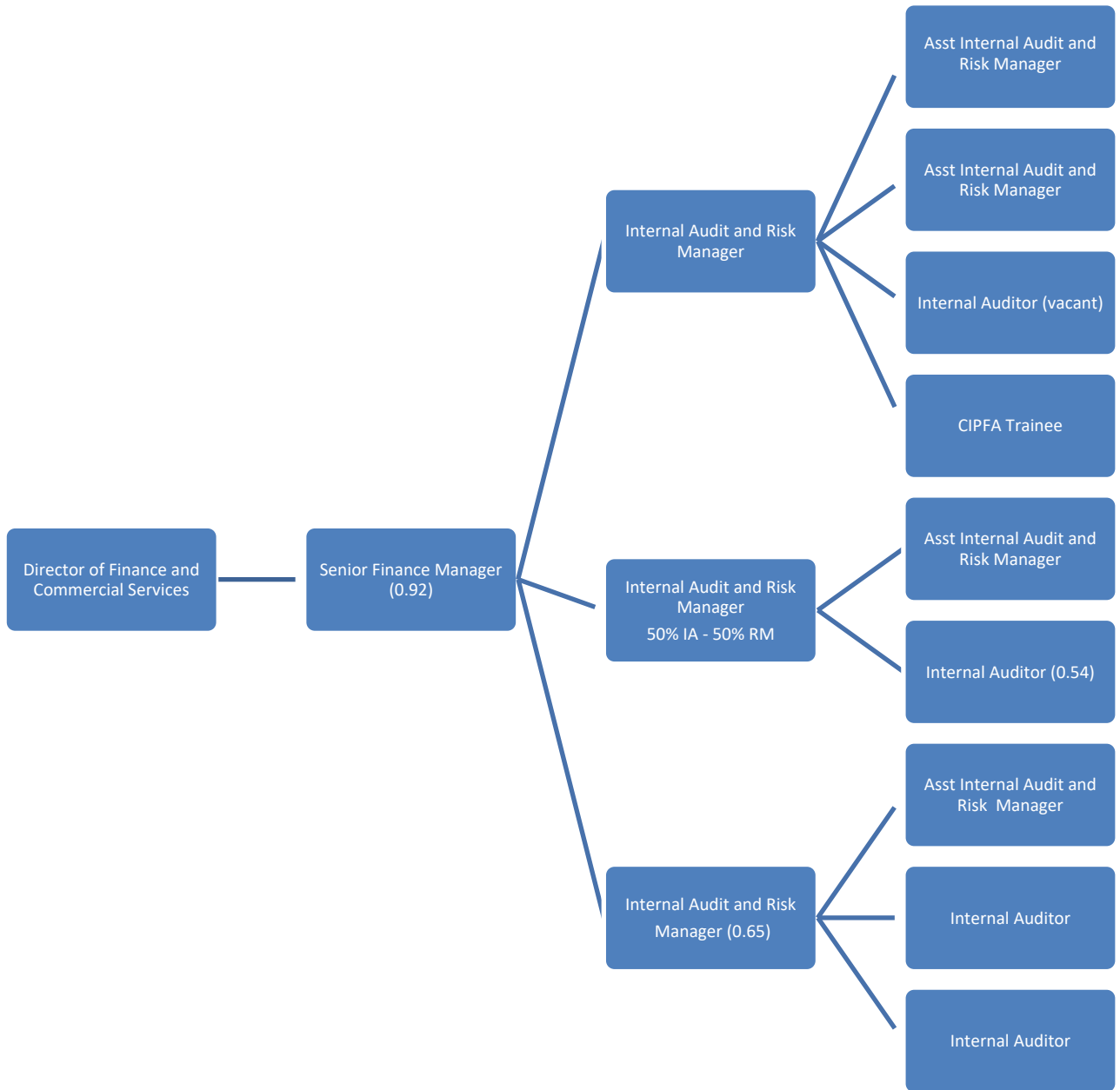
External assessments – results of external assessments will be reported to the Audit and Standards Committee and Section 151 Officer at the earliest opportunity following receipt of the external assessor's report. The external assessment report will be accompanied by an action plan in response to any 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 2024





Main Financial Systems Dashboard

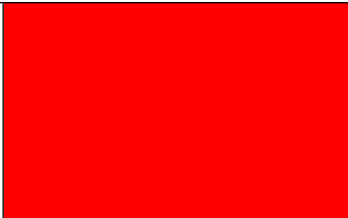


Activity Title	Scope	Assurance Opinion	Organisational Impact
Debtors - Refunds	Accuracy of the refund process, volume and timeliness. Including review process.	✓ ✓	Medium
Debtors – Business Partnering Advice and Guidance	Advice in relation to a large outstanding debt (complex scenario) and application of annual inflationary increases.	NA	NA
Payroll – Payment arrangements of election staff	The governance arrangements of the election’s payroll process and the effectiveness.	✓ ✓ ✓	Medium
Business Rates	Governance structures, decision making process, eligibility criteria, process accuracy and timeliness and fraud risk and prevention.	✓ ✓ ✓	Medium
Creditors – Early payments	Payment process and accuracy and trade supplier set up.	✓ ✓ ✓	Low
Payments methods review	Governance arrangements, fraud risk and prevention, data security and audit trail.	✓ ✓ ✓	Medium
Council Tax – Care Leavers	Communication process with Care Leavers scheme, administration, alignment with current legislation and ‘fit for purpose’.	✓	High



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>	



APPENDIX E

Summary of the key actions arising from Limited Assurance (Medium Impact) reports issued in 2023/24

Strategic and Enabling Services

Annual Governance Statement (AGS) 2022/23

Executive Summary

In terms of **control framework design** (i.e. the extent to which control measures have been established to mitigate specific risks) there is, in the main, a sound system of internal control in place in support of the preparation and publication of the Council's Annual Governance Statement (AGS). The Council has adopted the Directors' Assurance Framework (DAF) to facilitate the annual review of the effectiveness of its governance arrangements. In January 2023, prior to the launch of the 2022/23 AGS process, a review was performed of the compliance themes, control questions and evidence prompts forming the DAF, to confirm their ongoing relevance. Clear guidance is documented and communicated to support Directors in their completion of the DAF, to facilitate the complete disclosure of significant areas of non-compliance, and there is evidence that relevant stakeholders are involved at all stages of the process and that the issues raised are subject to rigorous evaluation, including opportunities for review and challenge.

However, some areas for control enhancement were identified during the course of the audit, a number of which have been reported previously (as part of prior-year AGS process reviews) but have yet to be resolved, with agreed management actions overdue for completion. This includes plans for the review and broader implementation of the DAF, comprising a formal mapping to the CIPFA / Solace Framework principles of good governance and full introduction of 'Level Two' (oversight control) and 'Level 3' (external assessment) review processes, and the development of associated systems solutions to facilitate the capture of remedial action tracking.

It was further noted that the management and implementation of DAF and AGS processes for 2022/23 relied heavily upon the skills, knowledge and availability of an individual member of the Legal and Governance Team, creating a single point of failure or 'key-person risk' for the Council. Associated resourcing constraints also delayed the completion of audit fieldwork associated with the audit review. Suitable contingency arrangements should be put in place to ensure that the complete and timely preparation and publication of the Council's AGS is not interrupted by the absence of key personnel.

In respect of **control framework operation** (i.e. the extent to which established controls are functioning in practice) for the 2022/23 reporting year, it was additionally identified that a number of key controls in place had not fully operated as intended;

such failures of control may put the achievement of service / organisational objectives at risk if not fully and promptly resolved.

Gaps in the system input and validation controls operating within the DAF SharePoint site resulted in a number of omissions and inaccuracies within the 'statutory responsibilities' data captured as part of Directors' assurance submissions. Omissions were also noted in the specification and capture of non-compliance issue ownership and of target completion dates for remedial action, required in support of subsequent action tracking.

As in previous years, control weaknesses were identified relating to omissions and timing issues with the formal sign-off of individual Directors' Assurance Statements, leading to an incomplete declaration by Directors and/or Executive Directors of their awareness and appropriate discharge of responsibilities as part of the annual governance review.

High Priority Recommendations:

- Gaps within System Input and Validation Controls (DAF SharePoint Site).
- Omissions and Timing Issues with the Sign-Off of Directors' Assurance Statements.
- Omissions and Inconsistencies in Non-Compliance Issue Capture, Undetected by Central Management Controls.
- Absence of Formal Review and Agreement of AGS Entries by the Performance and Delivery Board.
- Over-Reliance on Key Individuals in Support of DAF / AGS Process Completion.
- Omissions in the Specification and Capture of Issue Ownership and of Target Completion Dates for Remedial Action.
- Lack of Remedial Action Tracking in Support of Governance Issue Resolution.

IT Asset Management (End User Computing Devices)

Executive Summary

There is currently no high-level policy in place which sets out the Council's IT asset management objectives or defines and communicates the key roles and responsibilities of all parties involved in the IT asset lifecycle (including those of end users and their managers), to provide a clear framework for the effective management of the Council's IT assets. At the time of the audit, work was underway to develop a set of more detailed procedural guidance notes, for ICT colleagues, in support of their involvement in IT asset management activity. Some of this documentation was nearing completion whilst other aspects remained in the early stages of development. However, it is important to ensure that all such guidance material is written / updated alongside, and in full alignment with, any IT Asset Management Policy to be developed.

The Council's IT asset register, the 'Configuration Management Database' (or CMDB), is intended to act as the single source of information for all of the Council's IT assets and should hold sufficient details to manage each of these assets, including allocation

to a named end user. Procedures are in place to ensure that the data held within the CMDB is updated promptly at all key stages within the IT asset lifecycle, including the use of discovery software (Microsoft Intune) to automatically update IT asset records. However, during the audit, a known integration failure between Intune and the CMDB had resulted in numerous data omissions and inaccuracies, mainly relating to the linkage of individual assets to user accounts, meaning that full reliance could not be placed on CMDB records for the management of IT assets. Assurance has been provided to Internal Audit that work is ongoing to resolve the Intune / CMDB integration failure and to prevent issue recurrence.

At the time of audit testing, there was a lack of dedicated resource within ICT & DI with assigned responsibility for the receipt, storage and management of IT hardware assets. Internal Audit was informed that recruitment was underway for two dedicated Stock and CMDB Officers, who would take responsibility for the definition, documentation and subsequent implementation of robust operating procedures within this area of control. As a consequence of this lack of resource, formal reconciliations are not currently taking place to confirm that CMDB asset records are an accurate reflection of the physical assets held within service areas; nor are formal inventory checks performed of the IT assets held within central stores. Management assurance has been provided to Internal Audit that such controls will form part of the duties to be undertaken by Stock and CMDB Officers, once in post.

High Priority Recommendations:

- IT Asset Management Policy.
- Detailed Procedural Guidance / Process Maps.
- Allocation of IT Assets to Named End Users.
- Reconciliations of the CMDB to Assets Held within Service Areas.
- Use of Discovery Software to Update IT Asset Records.
- Recovery of IT Assets (Staff Leaver Returns & the Recovery of Obsolete Assets).
- Responsibilities for the Receipt, Storage & Management of IT Assets.
- Stock Checks of IT Assets Held within Central Stores.

Debtors – Refunds – Main Financial System (Limited Assurance, Medium Impact)

Executive Summary

The audit aimed to evaluate the effectiveness and efficiency of the refunds process and to review the Council's refunds policy and practice. The review was driven by the increase in payments in advance across the Council in a drive to reduce the number



of debtors. A measure which has, consequently, produced an increase in the number of refunds and decreased the effectiveness of current procedures.

The scope of the audit was to review three key payment systems at Sheffield City Council. These being Integra, E.Pay and Gov.Pay.

The audit findings indicate some key areas that require attention. The key overall points arising are;

- The consistency of evidence requested across all three systems.
- The consistency of the refunds process across each system and within the council more
- The authorisation of refunds across each system.

Critical Recommendations:

- Corporate Debt Policy updated to reflect current practices.
- Reasons to reject refund requests.
- Responsible Officer for Gov.Pay.

High Priority Recommendations:

- Refunds Administrative Charges.
- Refunds Claim Forms.
- Refund period.

Public Health and Integrated Commissioning

Integrated Commissioning (Limited Assurance, Medium Impact)

Executive Summary

The Integrated Commissioning Service plays a critical role in coordinating health and social care services for the local community for both children and adults alike. However, our audit findings revealed significant weaknesses in the system of internal controls, which could prevent the achievement of service objectives.

High Priority Recommendations:

- To develop an overarching Good Practice Guidance (including a workplan) for the Integrated Commissioning service.
- Ensure the Integrated Commissioning Leadership group meets on a regular basis.
- Production of process notes.

Business Partnering Activities

Finance Design Assurance (FDA) Group attendance and Task and Finish Group – Individual Service funds

Schools Annual Report 23/24

Debtors – Consulting advice – large outstanding debt

Financial Standards and Policy Group - Consulting

Schools Risk Management Framework and Template

Tree Inquiry Action Plan and follow up

Towns Fund, Levelling up and Future High Streets project

Children's Homes - Sickness Pay

Children's Services Procurement Cards

Free school meals vouchers

Pre-retirement course provider checks

Community Investment Levy (CIL) application advice and consulting (3 reviews)

Refugees Grant Consultation

Review of Case Management system purchase

Asbestos removal – named premises

Information Governance Board

Payment Card Industry (PCI) Monitoring arrangements

Finance and Commercial Services Risk Advice

Fraud annual report 23/24

General Data Protection (GDPR) - Compliance in contracts

South West Yorkshire Sub group – AGS and Core Cities PI sub group

Financial Systems Transformation Programme Board

Review of Anti-Fraud Policies

National Fraud Initiative (NFI) – Data Responses

National Fraud Initiative – Single Person Discounts



Grants/Account sign-off

DCS Virtual School Heads Role Grant

Building Successful Families (BSF) – 4 separate claim periods

Sheffield Inclusion Section - Annex G sign off

Family Hubs

Holiday and Activity and Food Programme - Easter

Disabled Facilities Grant

Basic Needs Allocation Grant

Local Authority Bus Subsidy Grant (BSOF)

Lord Majors Charity Accounts sign off

Crystal Peak charges 22/23 sign off

Rough Sleepers Initiative Grant

Condition Fund Grant

Higher Basic Needs Allocation Grant

Children Supported Internship Grant

Sheffield Culture Strategy Grant

Special Guardianship Grant

Hillsborough Library Entrance Reconfiguration Grant

Strengthening Multi Agency Leadership Grant

Charities Fund – Graves Park

Homelessness Prevention Grant

Youth Justice - Turnaround Programme Grant

Investigations

Investigation Advice to Management

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