

AUDIT COMMITTEE

**Venue: Town Hall, Moorgate
Street, Rotherham. S60
2TH**

**Date: Wednesday, 19 November
2014**

Time: 4.00 p.m.

A G E N D A

1. To determine if the following matters are to be considered under the categories suggested in accordance with the Local Government Act 1972.
2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.
3. Minutes of the previous meeting held on 17th September, 2014 (herewith) (Pages 1 - 8)
4. Treasury Management Training by Capita.
5. Mid Year Treasury Management and Prudential Indicators Monitoring Report 2014/15 (herewith) (Pages 9 - 21)
6. External Auditor's Interim Annual Audit Letter 2013/14 (report herewith) (Pages 22 - 31)
7. National Fraud Initiative (report herewith) (Pages 32 - 51)
8. Review of Progress Against the Internal Audit Plan for the six months ending 30th September 2014 (report herewith) (Pages 52 - 62)
9. Risks and Issues arising from the Jay Report into Child Sexual Exploitation in Rotherham 1997 - 2013 (report herewith) (Pages 63 - 68)
10. Date and Time of the Next Meeting - Wednesday, 21st January, 2015 at 4.00 p.m.

AUDIT COMMITTEE
17th September, 2014

Present:- Councillor Kaye (in the Chair); Councillors Cowles, Sharman and Sims.

Rashpal Khangura, Trevor Rees and Amy Warner, KPMG, were also in attendance.

Apologies for absence were received from Councillor Sangster.

N10. MINUTES OF THE PREVIOUS MEETING

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 23rd July, 2014.

Resolved:- That the minutes of the previous meeting be approved as a correct record for signature by the Chairman.

N11. AUDIT AND INSPECTION RECOMMENDATIONS UPDATE

Consideration was given to a report presented by Michelle Hill, Performance and Improvement Officer, which summarised the progress against recommendations from across all key external audits and inspections of Council services.

It was intended that the report would provide a high level analysis of progress with a particular focus on outstanding recommendations and new inspections since the date of the last report (April, 2014). A summary of these were detailed within the table in Appendix A, but in summary:-

- Since the last report there have been 1 non-compliant Care Quality Commission inspect of the Netherfield Court Intermediate Care Service in July, 2014.
- There was currently 1 action plan relating to Inspection and audit recommendations which was still “active” in the Authority (i.e. contained outstanding recommendations which were still relevant).
- Across the action plans 12 recommendations had been completed and 1 remained outstanding.

The Audit Committee also noted that progress against recommendations was good with clear actions identified and routes to monitor in progress in place.

A small number of timescales for individual improvement actions had slipped, however, all plans were on track to be completed and were reviewed regularly by Directorates.

It was essential that in this time of uncertainty and in the absence of any national performance regime (other than Children and Adult Services), that the Authority continued to be able to demonstrate continuous improvement and self-regulation through the implementation of any previously recommended actions.

It was noted that since the report had been written, the publication of the Jay Report had resulted in a number of investigations being instigated. Recent notification had been received of an Ofsted inspection under the Single Inspection Framework, a thematic inspection related to CSE, an inspection of Rotherham care homes and a review of the Authority's current governance arrangements.

Resolved:- (1) That the progress achieved against outstanding actions be noted.

(2) That any further actions be advised as necessary.

N12. ANNUAL TREASURY MANAGEMENT REPORT AND ACTUAL PRUDENTIAL INDICATORS 2013/14

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which detailed how the Council received an annual treasury strategy in advance of the 2013/14 financial year and also a mid-year report representing a mid-year review of treasury activity.

The annual treasury management report was the final treasury report for 2013/14. Its purpose was to review the treasury activity for 2013/14 against the strategy agreed at the start of the year.

The report also covered the actual Prudential Indicators for 2013/14 in accordance with the requirements of the Prudential Code.

Presentation of the report met the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Council was required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Further information was provided on the main reasons for change in the actual indicators from those originally set in March, 2013 and the level of the Council's external debt and investments.

It was noted that Capita would be in attendance at the next meeting to provide training on Treasury Management.

Resolved:- That the Annual Treasury Management Report be approved.

N13. BANKING SERVICES

Further to Minute No. N2 of the meeting held on 23rd July, 2014, Derek Gaffney, Chief Accountant, presented a further update on the outcome of the tender evaluation for the supply of Banking Services.

The former Cabinet Member for Finance (Minute No. 26 of 29th August, 2014 refers) had approved the appointment of the National Westminster Bank plc for a period of 5 years, with the option to extend for a further 3 years. Implementation would commence during September to ensure the Council could meet the Co-operative Bank's desired outcome for an early exit from the current contract by the end of December, 2014.

Resolved:- That the report be noted.

N14. REVIEW OF PROGRESS AGAINST THE INTERNAL AUDIT PLAN FOR THE FOUR MONTHS ENDING 31ST JULY 2014

Consideration was given to a report presented by Marc Bicknell, Chief Auditor, which provided a summary of Internal Audit work and performance for the 4 months ending 31st July, 2014.

Progress on the Audit Plan was slightly below target for various reasons including voluntary severance, maternity leave, additional responsive work and the extended scope of some pieces of work. However, based upon the work that had been undertaken in the period, the Council's control environment was adequate and operating satisfactorily.

Performance on most Indicators was close to or on target and anticipated to be achieved by the year end. Exceptions at the current time were in relation to 'audits completed within planned time' and 'percentage of Audit Plan completed'. Audit findings in most areas indicated that satisfactory control arrangements were in place and testing confirmed that the controls were operating effectively during the period under review. Nevertheless, there were opportunities to strengthen arrangements in some areas.

Reference was also made to the audit reports and recommendations from planned work which showed there were opportunities to strengthen arrangements in some areas.

- CYPS: Contract for School Improvement activity – a number of recommendations had been made to improve governance arrangements which had been agreed with CYPS Management
- EDS: Highways Final Accounts Arrangements – recommendations made to ensure robust 'open book' checks on costs were implemented going forward

Following the renewal of the 2 year contract to provide management of Doncaster MBC's Internal Audit Service, from April, 2013 to March, 2015, close work between the 2 Authorities continued and currently generated £35,000 annual income to Rotherham.

Recruitment was also to commence for an Audit Apprentice for 12 months to help meet the priority of providing quality education and ensuring that people had opportunities to improve skills, learn and get a job.

Regular progress meetings took place with KPMG regarding the Plan.

Resolved:- (1) That the performance of the Internal Audit Service during the period be noted.

(2) That the key issues arising from the work done in the period be noted.

N15. CORPORATE RISK REGISTER

Consideration was given to a report presented by Colin Earl, Director of Audit and Asset Management, which provided details of the current Corporate Risk Register summary. The summary showed the risks associated with the Council's most significant priorities and projects and actions being taken to mitigate these risks.

The impact of the publication of the Independent Inquiry into Child Sexual Exploitation had created a major risk to the Council potentially in relation to reputation, public confidence, service disruption, financial claim and morale.

The overall reputation of the Council and the Borough had also been affected and consequently the risk rating for the item had increased.

The top risks requiring close monitoring were:-

- Managing Government budget reductions – unable to maintain key services due to budgetary limits
- Report into Child Sexual Exploitation
- Welfare Reforms
- Delivering effective Children's Services within budget
- Economic Growth

2 risks had been removed from the Register – failure to use property assets to support growth and closure of the Digital Region Limited project.

2 new risks had been added – implementation of the Care Act and Broadband Delivery UK.

Resolved:- (1) That the contents of the Corporate Risk Register summary attached at Appendix A be noted.

(2) That the current assessment of the Council's top corporate risks be approved.

(3) That any further risks or opportunities that should be added to the risk register be identified.

N16. KPMG COMPARISON OF CORPORATE RISKS

Consideration was given to a report submitted by Rashpal Khangura, KPMG, which was a summary of an analysis of risk registers across various local authorities.

It should be noted that the report was produced prior to the public of the independent report into Child Sexual Exploitation and the subsequent inclusion of the issue on Rotherham's Risk Register.

There were a small number of items in other local authorities' registers that did not appear in Rotherham's Register:-

- Business continuity/disaster recovery/emergency planning
Corporate arrangements were regarded as well established, efficient and effective with no mitigate risk ranking that would require inclusion on Rotherham's register
- Partnership arrangements/governance
Not regarded as a corporate level risk although the assessment would be updated when a refresh was completed
- Data loss/information security/information governance
Performance was generally good and not regarded as a corporate risk
- Staff morale
Not regarded as a corporate risk after taking into account mitigating actions
- Health and safety compliance
The Council had a positive track record on Health and Safety management. There had been no recent on-site investigations by the HSE
- Delivering major projects
Any projects considered significant from a corporate perspective were included in the corporate register
- Delivering organisational change
Any change requirements associated with major projects were incorporated into the projects

Reports would be submitted to the Committee on the outcomes of refreshes.

It was felt that, in light of recent events, the issues of staff moral and health and safety compliance should be revisited.

Resolved:- (1) That the report be noted.

(2) That the comments made on risks included in other local authorities registers but not in Rotherham's be noted.

(3) That the actions proposed to update various assessments, taking into account recent changes, be approved.

(4) That staff morale and health and safety compliance be reassessed for possible inclusion on the Risk Register.

N17. ANNUAL GOVERNANCE STATEMENT 2013/14

Further to Minute No. N3 of 23rd July, 2014, Colin Earl, Director of Audit and Asset Management, re-submitted the 2013/14 Annual Governance Statement which highlighted an addition making reference to the independent report into Child Sexual Exploitation published on 26th August, 2014.

The Statement was required to reflect any significant governance issues arising up to the point it was signed which should be as close to the same day as the signing of the accounts at the end of the external audit of the accounts i.e. September, therefore, a report of such significance as the Alex Jay report must be reflected.

Resolved:- (1) That the revised 2013/14 Annual Governance Statement be noted.

(2) That the requirement for the Leader of the Council and the Chief Executive to sign the Statement, prior to 17th September, 2014, be noted.

N18. STATEMENT OF ACCOUNTS 2013/14

Consideration was given to a report presented by Simon Tompkins, Finance Manager, which advised on matters arising from the external audit of the Council's 2013/14 Statement of Accounts as presented in the External Auditor's ISA260 report and, in acknowledging these findings, requested that the Audit Committee approve both the Letter of Management Representations and the audited Statement of Accounts 2013/14.

The unaudited Statement of Accounts had now been subject to audit and any necessary changes discussed and agreed between the Section 151 Officer and the Auditor. The Statement of Accounts, in its revised form, now required approval by Members prior to publication before the end of September, 2014.

The Auditor's ISA 260 report set out in detail the outcomes from the audit including any changes made to the unaudited Statement of Accounts 2013/14.

Overall, the ISA260 report was an extremely positive one and considered the accounts to be of a high quality. Only a few minor presentational changes were identified all of which had been agreed with the external auditor and corrected in the final version of the Statement of Accounts.

None of the presentational changes made affect the financial performance or financial position of the Council reported in the unaudited Statement of Accounts.

In addition, the report confirmed that:-

- Controls over key financial systems were sound.
- The audit process was fully supported through good quality working papers and timely responses to audit queries.
- There were no other matters which needed to be reported to Audit Committee.

As a result of these positive assurances, KPMG anticipated being able to give an unqualified opinion by 30th September that the Council's Statement of Accounts provides a true and fair view of its financial position at 31st March, 2014 and its income and expenditure for the year then ended (see page 3 of the report).

These findings demonstrated that the Council had been able to sustain in 2013/14 the high standard of financial reporting that had been achieved in recent years since International Financial Reporting Standards (IFRS) were adopted.

This had been supported by the developments that had and were continuing to take place to facilitate financial reporting namely the introduction of a new general ledger structure during the course of the year and improvements to year end closure procedures.

It also reflected the benefit of officers working proactively with External Audit from an early stage in the audit to discuss and seek agreement on significant/complex accounting issues and areas of audit focus.

However, since the production of the unaudited financial statements, the publication of the independent report into Child Sexual Exploitation had resulted in an additional contingency note being added to disclose the possible liability that may arise from claims against the Council.

KPMG also informed the Committee that they were at present considering the impact of the independent report on their assessment of whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the so called Value For Money or VFM conclusion). As a consequence KPMG were unable at this stage to issue their VFM conclusion.

Resolved:- (1) That the Auditor's ISA260 report to those charged with governance attached at Appendix 1 be approved.

(2) That the Statement of Accounts 2013/14 attached at Appendix 2 be approved.

(3) That the Letter of Management Representations attached at Appendix 3 be approved.

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE
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1.	Meeting:	Audit Committee
2.	Date:	19 November 2014
3.	Title:	Mid Year Treasury Management and Prudential Indicators Monitoring Report 2014/15
4.	Directorate:	Resources

5. Summary

The regulatory framework of treasury management requires that the Council receive a mid year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.

This report meets that requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).

The report is structured to highlight the key changes to the Council's capital activity (the PIs) and the actual and proposed treasury management activity (borrowing and investment).

A technical and complex report the key messages for Members are:

- a. Investments - the primary governing principle remains **security** over return and the criteria for selecting counterparties reflects this.
- b. Borrowing - overall this will remain fairly constant over the period covered by this report and the Council will remain under-borrowed against the borrowing requirement due to the cost of carrying debt. New borrowing will generally only be taken up as debt matures.
- c. Governance - strategies and monitoring are undertaken by Audit Committee

6. Recommendations

The Audit Committee is asked to:

1. Note the report and the treasury activity; and
2. Refer the report to Cabinet to consider recommending Council approve the changes to the 2014/15 prudential indicators.

7. Proposals and Details

The Director of Financial Services has delegated authority to carry out treasury management activities on behalf of the Council and this report is produced in order to comply with the CIPFA Code of Practice in respect of Treasury Management in Local Authorities and the “Prudential Code”.

8. Finance

Treasury Management forms an integral part of the Council’s overall financial arrangements.

The assumptions supporting the capital financing budget for 2014/15 and for future years covered by the Council’s MTFS were reviewed in light of economic and financial conditions and the future years’ capital programme.

The Treasury Management and Investment Strategy is not forecast to have any further revenue consequences other than those identified and planned for in both the Council’s 2014/15 Revenue Budget and approved MTFS.

9. Risks and Uncertainties

Regular monitoring will ensure that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

10. Policy and Performance Agenda Implications

Effective treasury management will assist in delivering the Council’s policy and performance agenda.

11. Background Papers and Consultation

CIPFA Code of Practice for Treasury Management in Local Authorities
Local Government Act 2003
CIPFA “Prudential Code”

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Mid Year Prudential Indicators and Treasury Management Monitoring Report

1. Introduction and Background to the Report

- 1.1 Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.
- 1.2 This report meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and PIs were previously reported to Audit Committee and Cabinet in February 2014 and approved by Council on 5 March 2014.
- 1.3 The Council's revised capital expenditure plans (Section 2.2 of this report) and the impact of these revised plans on its financing are set out in Section 2.3. The Council's capital spend plans provide a framework for the subsequent treasury management activity. Section 3 onwards sets out the impact of the revised plans on the Council's treasury management indicators.
- 1.4 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the CLG Investment Guidance. These state that Members receive and adequately scrutinise the treasury management service.
- 1.5 The underlying economic and financial environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with high quality counterparties. The downside of such a policy is that investment returns remain low.
- 1.6 The Director of Financial Services can report that the basis of the treasury management strategy, the investment strategy and the PIs are not materially changed from that set out in the approved Treasury Management Strategy (March 2014).

2. Key Prudential Indicators

- 2.1. This part of the report is structured to update:
 - The Council's capital expenditure plans;
 - How these plans are being financed;
 - The impact of the changes in the capital expenditure plans on the PIs and the underlying need to borrow; and
 - Compliance with the limits in place for borrowing activity.

2.2 Capital Expenditure (PI)

2.2.1 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The revised estimate reflects the latest position in the 2014/15 capital monitoring report presented to Cabinet on 24 September 2014

Capital Expenditure by Service	2014/15 Original Estimate £m	2014/15 Revised Estimate £m
Children & Young People's Services	10.948	12.034
Environmental & Development Services	14.239	29.400
Neighbourhoods & Adult Services – Non-HRA	3.156	5.094
Resources	0.957	3.179
Total Non-HRA	29.300	49.707
Neighbourhoods & Adult Services – HRA	30.048	32.006
Total HRA	30.048	32.006
Total	59.348	81.713

2.3 Impact of Capital Expenditure Plans

2.3.1 **Changes to the Financing of the Capital Programme**

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the expected financing arrangements of this capital expenditure.

Capital Expenditure	2014/15 Original Estimate £m	2014/15 Revised Estimate £m
Total spend	59.348	81.713
Financed by:		
Capital receipts	0.782	2.414
Capital grants, capital contributions & other sources of capital funding	50.967	63.264
Borrowing Need	7.599	16.035
Total Financing	59.348	81.713
Supported Borrowing	0.000	0.000
Unsupported Borrowing	7.599	16.035
Borrowing Need	7.599	16.035

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision (MRP)). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

2.3.2 It was reported to Audit Committee in September 2014 that actual capital expenditure financed by borrowing in 2013/14 was less than had been anticipated (£3.899m). The increase in borrowing need for 2014/15 therefore reflects the re-profiling of this project expenditure & financing from 2013/14 and new approvals since the original estimate was approved (£4.932m). The main areas of slippage in 2013/14 were Investment in ICT and Highways Projects. Since the original estimate for borrowing need was approved, further capital projects have been approved which are to be financed in part or wholly by borrowing and these include the purchase of business units at the Advanced Manufacturing Park and support to the BD UK broadband project.

2.3.3 Changes to the Capital Financing Requirement (PI), External Debt and the Operational Boundary (PI)

The table below shows the CFR, which is the underlying external need to borrow for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary which was set at the beginning of the financial year at £614.912m.

2.3.4 Prudential Indicators – Capital Financing Requirement & External Debt / the Operational Boundary

In addition to showing the underlying need to borrow, the Council's CFR has since 2009/10, also included other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets. No borrowing is actually required against these schemes as a borrowing facility is already included in the contract. The estimate for 2014/15 does not require any revision as there is no change in the borrowing need from such arrangements.

2.3.5 The revised CFR estimate for 2014/15 is £755.262m and this figure represents an increase of £5.812m when compared to the 2013/14 year-end position of £749.450m. The increase is principally due to the value of the new approvals (£4.932m) within the increased borrowing need for 2014/15 (see 2.3.2 above). A reduction in the MRP charge for 2013/14 and the marginally higher outturn borrowing amount contained within PFI and similar schemes at 31st March 2014 also contribute due to the effect these had on the 2013/14 year-end CFR.

RMBC	2014/15 Original Estimate £m	Current Position £m	2014/15 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR – Non Housing	316.593		320.734
CFR – Housing	307.646		306.961
Total CFR excluding PFI, finance leases and similar arrangements	624.239		627.695
Net movement in CFR	-2.803		5.812
Cumulative adjustment for PFI, finance leases and similar arrangements	125.617		127.567
Net movement in CFR	-1.788		0.000
Total CFR including PFI, finance leases and similar arrangements	749.856		755.262
Net movement in overall CFR	-4.591		5.812
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	487.507	479.024	479.695
Other long term liabilities*	127.405	127.567	127.567
Total Debt 31 March	614.912	606.591	607.262

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Former SYCC	2014/15 Original Estimate £m	Current Position £m	2014/15 Revised Estimate £m
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	96.121	96.121	96.121
Other long term liabilities	0	0	0
Total Debt 31 March	96.121	96.121	96.121

3. Limits to Borrowing Activity

- 3.1 The first key controls over the treasury activity is a PI to ensure that over the medium term, gross and net borrowing will only be for a capital purpose. Gross and net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent to do so.

RMBC	2014/15 Original Estimate £m	Current Position £m	2014/15 Revised Estimate £m
Gross Borrowing	487.507	479.024	479.695
Plus Other Long Term liabilities*	127.405	127.567	127.567
Total Gross Borrowing	614.912	606.591	607.262
CFR*	749.856	752.356	755.262
Total Gross Borrowing	614.912	606.591	607.262
Less Investments	10.000	32.540	25.000
Net Borrowing	604.912	574.051	582.262
CFR*	749.856	752.356	755.262

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

- 3.2 The Director of Financial Services reports that no difficulties are envisaged for the current or future years in complying with this PI.
- 3.3 A further PI controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt (RMBC)	2014/15 Original Indicator £m	Current Position £m	2014/15 Revised Indicator £m
Borrowing	637.971	479.024	643.023
Other long term liabilities*	127.405	127.567	127.567
Total	765.376	606.591	770.590

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Authorised limit for external debt (Former SYCC)	2014/15 Original Indicator £m	Current Position £m	2014/15 Revised Indicator £m
Borrowing	96.121	96.121	96.121
Other long term liabilities	0.000	0.000	0.000
Total	96.121	96.121	96.121

4. Treasury Strategy 2014/15 – 2016/17

4.1 Debt Activity during 2014/15

4.1.1 The expected borrowing need is set out below:

RMBC	2014/15 Original Estimate £m	Current Position £m	2014/15 Revised Estimate £m
CFR	749.856	752.356	755.262
Less Other Long Term Liabilities*	125.617	127.567	127.567
Net Adjusted CFR (y/e position)	624.239	624.789	627.695
Borrowed at 30/09/14	494.368	479.024	479.024
Under borrowing at 30/09/14	129.871	145.765	148.671
Borrowed at 30/09/14	494.368		479.024
Estimated to 31/03/15	-9.944		0.671
Total Borrowing	484.424		479.695
Under borrowing at 31/03/15	139.815		148.000

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

- 4.1.2 The Council is currently under-borrowed. The delay in borrowing reduces the cost of carrying the borrowed monies when yields on investments are low relative to borrowing rates. There is also an interest rate risk, as longer term borrowing rates may rise, but this position is being closely monitored and the overall position carefully managed.
- 4.1.3 In late 2013/14 arrangements were made through a forward deal to borrow £20m in 2014/15 from the pension fund of BAE Systems. This was on the anticipation of maturities in the year principally £25m to be repaid in December 2014. During the six months to 30 September 2014 the Council was in receipt of £4m of that sum with the remaining £16m due to be received in December. The rate of interest on this debt is 4.05% and loan period is 44 years.
- 4.1.4 During the six months to 30 September 2014, the Council has repaid the following amounts:

Lender	Principal	Type	Interest Rate
PWLB	£1,000,000	Fixed rate (EIP)	3.46%
PWLB	£65,000	Fixed rate (EIP)	3.79%
PWLB	£74,074	Fixed rate (Annuity)	Various

One EIP loan for £20m is being repaid in equal half yearly instalments of £1m over its 10 year term. A second EIP loan for £1.3m is being repaid in equal half yearly instalments of £65,000 over its 10 year term. There are 5 Annuity loans on which variable amounts of principal are repaid each six months.

- 4.1.5 There has been no restructuring or early repayment of existing debt in the first six months of 2014/15.

5. Investment Strategy 2014/15 – 2016/17

5.1 Key Objectives

The primary objective of the Council's investment strategy is the safeguarding the repayment of the principal and interest of its investments on time – the investment return being a secondary objective. The current difficult economic and financial climate has heightened the Council's overriding risk consideration with regard to "Counterparty Risk". As a result of these underlying market concerns officers continue to implement an operational investment strategy which further tightens the controls already in place in the approved investment strategy.

5.2 Current Investment Position

The Council held £32.540m of investments at 30 September 2014 (excluding Icelandic Banks), and the constituent parts of the investment position are:

Sector	Country	Up to 1 year £m	1 - 2 years £m	2 – 3 years £m
Banks	UK	0	0	0
DMO	UK	17.040	0	0
Local Authorities	UK	15.500	0	0
Total		32.540	0	0

Officers are currently arranging for the opening of a 'call' account with the top rated bank Handelsbanken. This bank meets the Council's highest investment criteria and any deposits will in the short-term be limited to a maximum period of 1 month and a maximum amount of £1m.

This approach will enable the Council to minimise the risk of having to leave unexpected receipts with the Council's current and future bankers, it will allow immediate access to a small amount of funds to cover or part cover any short-term borrowing requirements and based on current rates there would be a small benefit of currently approx. 0.2% over the rate achievable from the Debt Management Office.

5.3 Risk Benchmarking

A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting.

The following reports the current position against the benchmarks.

5.3.1 **Security** – The Council monitors its investments against historic levels of default by continually assessing these against the minimum criteria used in the investment strategy. The Council's approach to risk, the choice of counterparty criteria and length of investment ensures any risk of default is minimal when viewed against these historic default levels.

5.3.2 **Liquidity** – In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- A Bank overdraft facility of £10m
- Liquid short-term deposits of at least £3m available within a week's notice.

The Director of Financial Services can report that liquidity arrangements were adequate during the year to date.

- 5.3.3 **Yield** – a local measure for investment yield benchmark is internal returns above the 7 day LIBID rate

The Director of Financial Services can report that the return to date averages 0.25%, against a 7 day LIBID to end September 2014 of 0.35%. This is reflective of the Council's current approach to risk whereby security has been maximised by using the Debt Management Office and other Local Authorities as the principal investment counterparties.

6. **Revisions to the Investment Strategy**

- 6.1 The counterparty criteria are continually under regular review but in the light of the current market conditions no recommendations are being put to Members to revise the Investment Strategy.

7. **Treasury Management Prudential Indicators**

- 7.1 **Actual and estimates of the ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

	2014/15 Original Indicator %	2014/15 Revised Indicator %
Non-HRA	9.14	8.68
HRA	17.52	17.29

- 7.2 The revised non HRA indicator reflects the impact of borrowing being at rates less than originally anticipated for 2014/15. The HRA indicator has increased slightly due to the final HRA revenue budget being less than that assumed in the original indicator.

- 7.3 **Prudential indicator limits based on debt net of investments**

- **Upper Limits On Fixed Rate Exposure** – This indicator covers a maximum limit on fixed interest rates.
- **Upper Limits On Variable Rate Exposure** – Similar to the previous indicator this identifies a maximum limit for variable interest rates based upon the debt position net of investments.

RMBC	2014/15 Original Indicator	Current Position	2014/15 Revised Indicator
Prudential indicator limits based on debt net of investments			
Limits on fixed interest rates based on net debt	100%	76.26%	100%
Limits on variable interest rates based on net debt	30%	22.13%	30%

7.4 **Maturity Structures Of Borrowing**

These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

The current position shown below reflects the next call dates on those Council's LOBO loans (£106m) that are not callable in the next 12 months and thus regarded as fixed rate rather than their actual maturity date which for most of these loans is beyond 50 years (£82m). This approach gives a better indication of risk and whilst there is a possibility that a loan is called with an increase in interest payable the likelihood of any LOBO loans being called in the current climate is assessed as zero for the next three years.

RMBC	2014/15 Original Indicator		Current Position		2014/15 Revised Indicator	
	Lower	Upper	%	£m	Lower	Upper
Maturity Structure of fixed borrowing						
Under 12 months	0%	35%	5.67%	21.141	0%	35%
12 months to 2 years	0%	35%	11.34%	42.286	0%	35%
2 years to 5 years	0%	40%	23.30%	86.896	0%	40%
5 years to 10 years	0%	40%	21.51%	80.246	0%	40%
10 years to 20 years	0%	45%	5.81%	21.690	0%	45%
20 years to 30 years	0%	50%	9.23%	34.430	0%	50%
30 years to 40 years	0%	50%	8.18%	30.521	0%	50%
40 years to 50 years	0%	55%	14.96%	55.815	0%	55%
50 years and above	0%	60%	0%	0.000	0%	60%

The former SYCC account is due to be wound up by the end of 2020/21 and the maturity structure is now largely fixed as the need and indeed opportunities to re-finance within the remaining 7 years will be limited. As a result future limits are currently set in line with the on-going maturity profile.

Former SYCC	2014/15 Original Indicator		Current Position		2014/15 Revised Indicator	
	Lower	Upper	%	£m	Lower	Upper
Maturity Structure of fixed borrowing						
Under 12 months	0%	50%	0.00%	0.000	0%	50%
12 months to 2 years	0%	70%	9.79%	9.412	0%	70%
2 years to 5 years	0%	100%	52.56%	50.520	0%	100%
5 years to 10 years	0%	100%	37.65%	36.189	0%	100%

7.5 Total Principal Funds Invested

These limits are set to reduce the need for the early sale of an investment, and show limits to be placed on investments with final maturities beyond each year-end.

The Council currently has no sums invested for periods exceeding 364 days due to market conditions. To allow for any changes in those conditions the indicator has been left unchanged. The above also excludes any Icelandic investments that are due to be recovered after more than 364 days.

RMBC	2014/15 Original Indicator £m	Current Position £m	2014/15 Revised Indicator £m
Maximum principal sums invested > 364 days	10	0	10
Comprising			
Cash deposits	10	0	10

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS
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1.	Meeting:	Audit Committee
2.	Date:	19 November 2014
3.	Title:	External Auditor’s Interim Annual Audit Letter 2013/14
4.	Directorate:	Resources

5. Summary

The Annual Audit Letter (AAL) 2013/14 summarises the external audit work in relation to the 2013/14 audit plan and highlights the findings in relation to the following:

- Audit of accounts 2013/14
- Value For money Conclusion 2013/14
- Any Other Matters the external auditor is required to communicate.

A copy of their AAL is attached to this report.

It should be noted that the AAL is an interim only at this stage as KPMG have not yet issued their Value For Money Conclusion pending consideration of the scope and outcomes from the inspection work commissioned following the independent inquiry into child sexual exploitation.

6. Recommendations

That the Audit Committee notes the Interim Annual Audit Letter presented to the Council by its external auditors, KPMG LLP.

7. Proposals and Details

The purpose of the Annual Audit Letter (AAL) is to communicate to the Council and key external stakeholders, including members of the public, in a clear and concise manner, the key issues arising from the audit which the external auditor considers should be brought to the attention of the Council.

The Annual Audit Letter (AAL) 2013/14 attached as Appendix 1 is KPMG's summary of audit work for the 2013/14 year.

The AAL is interim only at this stage, as KPMG have not yet issued their Value For Money conclusion.

The Interim AAL briefly summarises the key messages of the external auditor's work which have previously been reported to Audit Committee in more detail during the course of the year. These more detailed reports are:

- The ISA 260 Report presented to Audit Committee on 17 September 2014 immediately prior to the 2013/14 Statement of Accounts being approved, and
- Interim Audit Letter presented to Audit Committee on 23 April 2014

The main headlines from the Interim AAL in relation to the accounts and other audit responsibilities are that:

- The Council's financial statements were produced to a good standard without the need for audit adjustment and were given an unqualified audit opinion before the statutory deadline of 30 September. KPMG LLP complemented officers on the strong financial reporting process and in providing working papers to the expected standard and timely responses to audit queries;
- The Annual Governance Statement as amended at September's Audit Committee, is compliant with the CIPFA/SOLACE framework for delivering good governance in local government, and
- There are no high priority recommendations or other matters that need to be brought to the attention of the Audit Committee

In relation to the Value for Money Conclusion, KPMG have still to reach a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources. KPMG are satisfied that the Council's medium term financial planning is sufficiently robust to enable it manage its financial risks and to continue to provide services effectively in the face of continuing funding reductions. However, they need to take into consideration the scope and outcomes from the inspection work commissioned following the publication of the independent inquiry into child sexual exploitation before coming to their view.

8. Finance

As set out in Appendix 2 to the AAL, the audit fee to date for 2013/14 of £186,300 is in line with the planned audit fee. However, this may increase, if KPMG determine that they need to undertake additional audit work to reach their Value For Money conclusion.

9. Risks and Uncertainties

The AAL is interim only at this stage as KPMG have not yet issued their Value For Money Conclusion pending consideration of the scope and outcomes from the inspection work commissioned following the independent inquiry into child sexual exploitation.

10. Policy and Performance Agenda Implications

The indicative fee for 2014/15 has been kept at £186,300 on the assumption that the general level of risk in relation to the audit remains unchanged. To justify this, the Council will need to continue to deliver robust financial management and internal control arrangements. These will be assessed as part of KPMG's 2014/15 external audit work.

11. Background Papers and Consultation

KPMG Interim Annual Audit Letter 2013/14
Audit Committee – 17 September 2014

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Interim - Annual Audit Letter 2013/14

Rotherham Metropolitan Borough
Council

20 October 2014



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Report sections

- Headlines

Appendices

1. Summary of reports issued
2. Audit fees

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5

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees, the appointed engagement lead to the Authority, who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

This report summarises the key findings from our 2013/14 audit of Rotherham Metropolitan Borough Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

This report is interim as we have not yet issued our VFM conclusion.

<p>VFM conclusion and VFM risk areas</p>	<p>Our initial audit planning process identified two significant risks to our VFM conclusion. These concerned the closure of Digital Region Limited, and the Authority’s savings plans for reductions in funding.</p> <p><u>Digital Region Limited (DRL)</u> We have reviewed the work carried out by the Authority in relation to the closure of DRL. The decision to close was taken on a reasonable and evidence based approach and is being managed appropriately. As such, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in the closure of DRL.</p> <p><u>Savings Plans</u> We have reviewed the Authority’s medium term financial plan forecasts and we note that this has taken into consideration the potential funding reductions and it is sufficiently robust to ensure the Authority can continue to provide services effectively given the funding reductions. This includes a risk assessed approach to managing reserves to ensure financial risks are managed.</p> <p>Our VFM audit approach requires us to consider findings from other inspectorates and review bodies. We have now considered the Independent Inquiry into Child Sexual Exploitation in Rotherham. The output of this Independent Inquiry has created a further significant risk and as a result we have identified some areas of further work we need to consider before we can issue our VFM conclusion. However, the areas we need to consider are potentially included in inspections commissioned by central government. We are currently in the process of understanding the terms of reference and outputs for these inspections, before deciding where we can rely on inspection work and where we need to undertake work ourselves. Therefore, at the date of this report we have delayed issuing our VFM conclusion until we have completed this work.</p>
<p>Audit opinion</p>	<p>We issued an unqualified opinion on your financial statements on 22 September 2014. This means that in our opinion the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
<p>Financial statements audit</p>	<p>We identified no adjusted or unadjusted misstatements as part of our audit work.</p> <p>We noted:</p> <ul style="list-style-type: none"> • as in previous years, the Authority had produced the financial statements to a good standard; • Financial Services provided, or were able to provide on request, working papers which fully addressed our line of enquiry; and • Officers provided timely responses to ad hoc requests and queries which we raised throughout the audit without exception.

This report summarises the key findings from our 2013/14 audit of Rotherham Metropolitan Borough Council (the Authority).

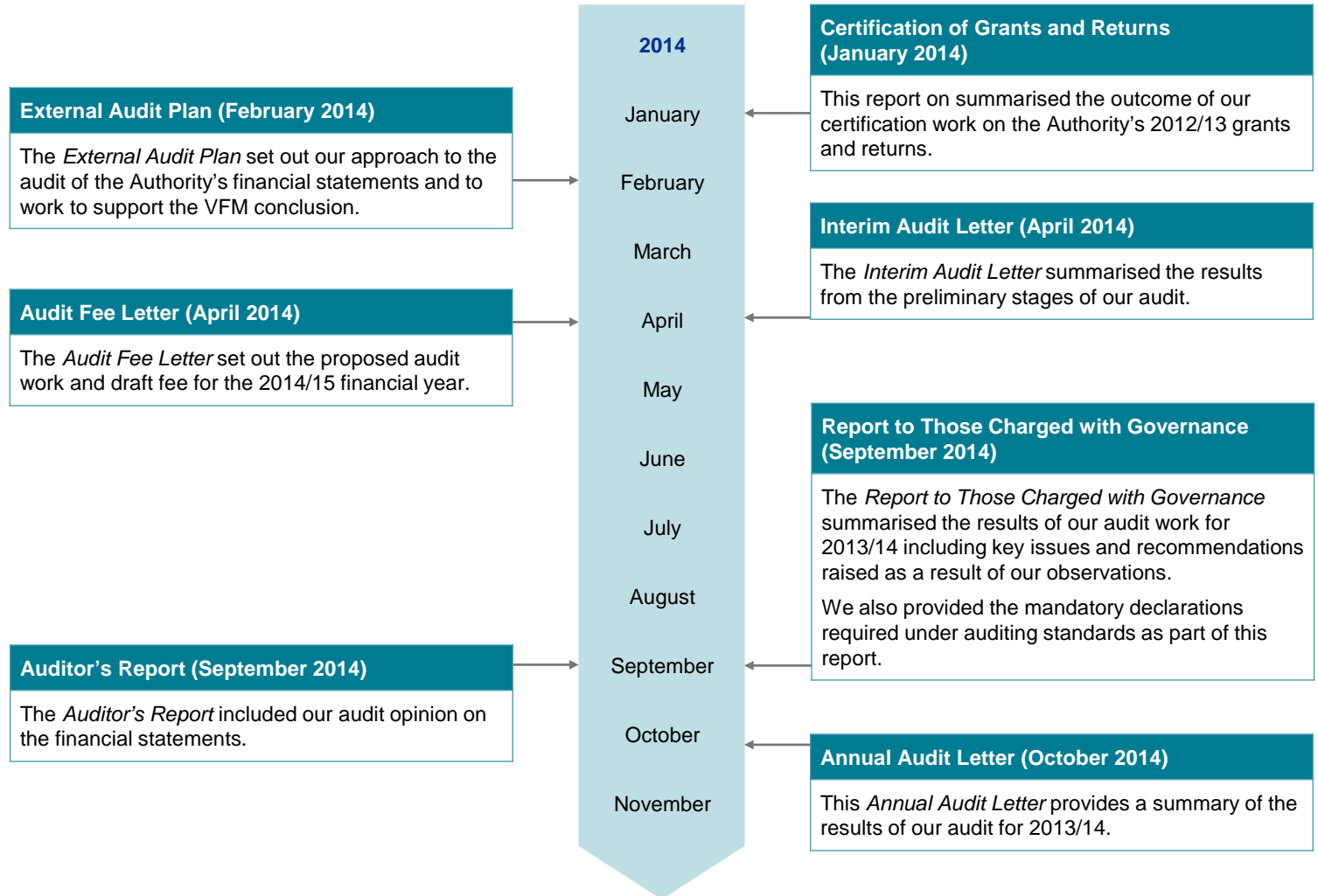
Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2013/14 financial statements and the 2013/14 VFM conclusion.

Annual Governance Statement	We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	We identified no high priority recommendations as a result of our 2013/14 audit work.
Certificate	We have been unable to issue our audit certificate as at the date of this report, due to our ongoing work in relation to our VFM conclusion, as outlined above.
Audit fee	Our fee for 2013/14 is £186,300 to date (excluding VAT). This is in line with the planned fee however, we note our work in relation to our VFM conclusion is not complete and this may result in additional fees. See Appendix 2 for further details.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for 2013/14.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2013/14 planned audit fee.

External audit

Our fee for the 2013/14 audit is £186,300 to date (excluding VAT). This is in line with our planned audit fee and less than the 2012/13 fee, which was higher due to work in relation to DRL. However, we note our work in relation to our VFM conclusion is not complete and this may result in additional fees.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2013/14* which we are due to issue in January 2015.



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ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE
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1.	Meeting:	Audit Committee
2.	Date:	19th November 2014
3.	Title:	National Fraud Initiative
4.	Directorate:	Environment and Development Services

5. Summary

This report contains a summary of the recently produced report “The National Fraud Initiative 2012/13”. It outlines the benefits from participating in the NFI and the Audit Commission’s data matching exercise. It explains how the NFI helps councils fight fraud and sets out how the Commission plans to improve the NFI.

Rotherham Council continues to participate in and benefit from the NFI by highlighting and stopping fraud and demonstrating the Council’s zero tolerance approach to fraud.

6. Recommendations

The Audit Committee is asked to:

- **note the publication of “The National Fraud Initiative 2012/13” report**
- **support the Council’s participation in NFI exercises as part of its arrangements for managing the risk of fraud.**

7. Proposals and Details

7.1 Background

In its recent Annual Fraud Indicator, the National Fraud Authority (NFA) estimates that fraud in the public sector costs £20.6 billion a year. This amounts to £420 for every adult in the UK.

Councils need strong anti-fraud cultures and effective counter-fraud policies and procedures that stress the unacceptability of fraud and its serious consequences. Members have a key role in ensuring that their council checks regularly the effectiveness of its arrangements for preventing and detecting fraud.

The National Fraud Initiative (NFI) combats the threat of fraud by comparing information held by different organisations to identify potential fraud.

The key strength of the NFI is that it brings together data from a wide range of different organisations, working together in partnership to tackle fraud. Fraudsters will often target different organisations at the same time, using the same fraudulent identities.

7.2 The Audit Commission's National Fraud Initiative

Since 1996, the Audit Commission has run the NFI data matching exercise every two years, helping to identify nearly £1.17 billion of fraud, overpayments and error in England, Scotland, Wales and Northern Ireland. Of this total, £1.02 billion has been detected in England.

Due to the forthcoming abolition of the Audit Commission, NFI work scheduled for beyond March 2015 will now be delivered by the Cabinet Office.

Some 1,300 participating organisations from across the public and private sectors provide data to the NFI.

Participants include all local authorities, police, fire and rescue authorities and NHS bodies, who are required by law to provide data for the NFI. A number of other public sector and private sector bodies also participate on a voluntary basis.

Table 1 shows examples of the data matches undertaken and why. Where a match is found it indicates that there is an inconsistency that requires further investigation by the body. The investigation may detect instances of fraud, over or underpayments, and other errors. For example, payroll to housing benefit matches can identify employees who may be committing benefit fraud by not declaring their earnings; pension matches may identify a person as being listed as deceased, but still in receipt of a pension.

A match does not automatically mean there is a fraud. Often there is a straightforward explanation for a data match that prompts bodies to update their records and to improve their systems.

Table 1: Examples of the data matches the NFI undertakes

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Payroll records to records of failed asylum seekers and records of expired visas.	Obtaining employment while not entitled to work in the UK.
Blue badges records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council tax payer gets council tax single person discount but the person is living with other countable adults, and so does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

7.3 Data Protection.

The NFI works within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.

Data matching exercises are carried out under statutory powers in Part 2A of the Audit Commission Act 1998, which contains important safeguards on the use and disclosure of data, including the requirement for a statutory Code of Data Matching Practice.

The Code helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards that the Commission has always considered essential to the effectiveness of the NFI. It also promotes good practice.

The NFI's data matching systems and processes comply with all relevant government information security standards.

7.4 NFI results

Since the last NFI report in May 2012, the NFI has identified fraud, overpayment and error in England totalling £203 million. This represents an 11 per cent decrease on the total for the previous reporting period (£229 million) but compared to the pattern of outcomes over time £203 million is still a significant outcome.

The total comprises saving of £144 million for 2012/13 and £59 million of outcomes not previously reported from earlier exercises. These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

The main categories of fraud identified by the NFI in England since May 2010 continue to relate to pensions (£74 million), council tax (£39 million) and housing benefit (£33 million).

The exercise also produced other significant results:

- 120 employees were dismissed or asked to resign because they had no right to work in the UK.
- 86 properties were recovered for social housing.
- 571 people were prosecuted
- 2,394 false applications were removed from housing waiting lists
- 21,396 blue badges and 78,443 concessionary travel permits were cancelled.

7.5 Future arrangements

The future transfer of the Commission's data matching powers, and therefore the NFI, to the Cabinet Office was secured when the Local Audit and Accountability Act received Royal Assent on 31st January 2014. The transfer of the data matching powers and the Commission's NFI team is expected to take place on 1st April 2015. In the short term the main objective is to make the transition as smooth as possible. The fact that the NFI web application is delivered by a third party under a contract, which will also transfer to the Cabinet Office, will help ensure that the day to day experience of taking part in the NFI is unaffected by this transition.

Discussions are also on-going about the longer term strategy for the NFI. These will focus on ensuring the NFI team:

- Continue to develop the successful batch data matches through two yearly matching and the flexible data matching service to offer more flexibility and respond quickly to new risks;
- Continue to work on fraud prevention matching through the development of real-time data matching services;
- Extend the data matching purposes at the earliest opportunity to enable the NFI to offer services to a broader range of organisations and sectors; and
- Maximise the opportunities presented by the transfer to the Cabinet Office. For example, better integration of central government departments and their data, and understanding how the NFI can contribute to, and benefit from, the Counter Fraud Checking Service currently being developed by the Cabinet Office.

7.6 Rotherham Compared

Compared to its nearest CIPFA neighbours Rotherham Council's total recovery was below average for the 2012/13 NFI; the average being around £50,000. This reflects the strong internal financial control arrangements in place at Rotherham Council which are tested periodically by Internal Audit.

Further to this the Council also take part in a separate data matching exercise with regards to Council Tax which is performed externally by a company called 'Datatank'. The total debit applied to Council Tax accounts following this exercise in 2012/13 was £563k, with an overall recovery rate of 97.5%.

7.7 Rotherham Council's response

Rotherham Council has proactively participated in all NFI exercises run by the Audit Commission since 1996. Internal Audit and the Benefits Fraud Investigation Team investigate data matches on a risk assessed basis (targeting the matches that look most likely to involve fraud). The approach has enabled the Council to implement a range of preventative measures over time and as a result lower levels of fraud are identified over time as more robust control processes are applied to prevent fraud in the first place.

Further to the results published by the NFI for 2012/13 Rotherham Council will:

- Ensure that resources are used efficiently in the investigation of data matches through the targeting of specific high risk areas
- Work collaboratively with colleagues at Doncaster MBC Internal Audit to share intelligence and best practice on the use of NFI data
- Explore the option of real time data matching which uses NFI techniques to generate, and make available, high quality data matches immediately
- Consider the use of other counter fraud initiatives in addition to the NFI data matching, similar to the one currently performed by 'Datatank'
- Consider a business case for the development of a corporate counter fraud function

8. Finance.

The cost to RMBC of participating in the NFI 2014/15 exercise is £4,000.

9. Risks and Uncertainties

Failure to participate in the NFI could expose the Council to increased risks of fraud & corruption. Also, the NFI is a mandatory exercise for Councils.

10. Policy and Performance Agenda Implications

Continued participation in the NFI will contribute towards good governance.

11. Background Papers and Consultation.

A copy of the report has been sent electronically to Audit Committee Members.
The report can be found at: <http://www.audit-commission.gov.uk/wp-content/uploads/2008/05/NFI-national-report-FINAL-11-June-2014.pdf>

Contact Names:

Colin Earl, Director of Audit and Asset Management, ext. 22033

Marc Bicknell, Chief Auditor, ext. 23297

National Fraud Initiative

Outcomes and Information for Elected Members and Decision Makers - 2012/13

Rotherham Metropolitan Borough Council



Introduction to the slide pack



This slide pack is intended for use by elected members and senior decision makers to inform you about the National Fraud Initiative (NFI) and data matching at your organisation



We have included a summary of the key findings of the latest NFI national report and a summary of key points from the NFI checklist for decision makers and elected members which can be found in full on the [NFI website](#)

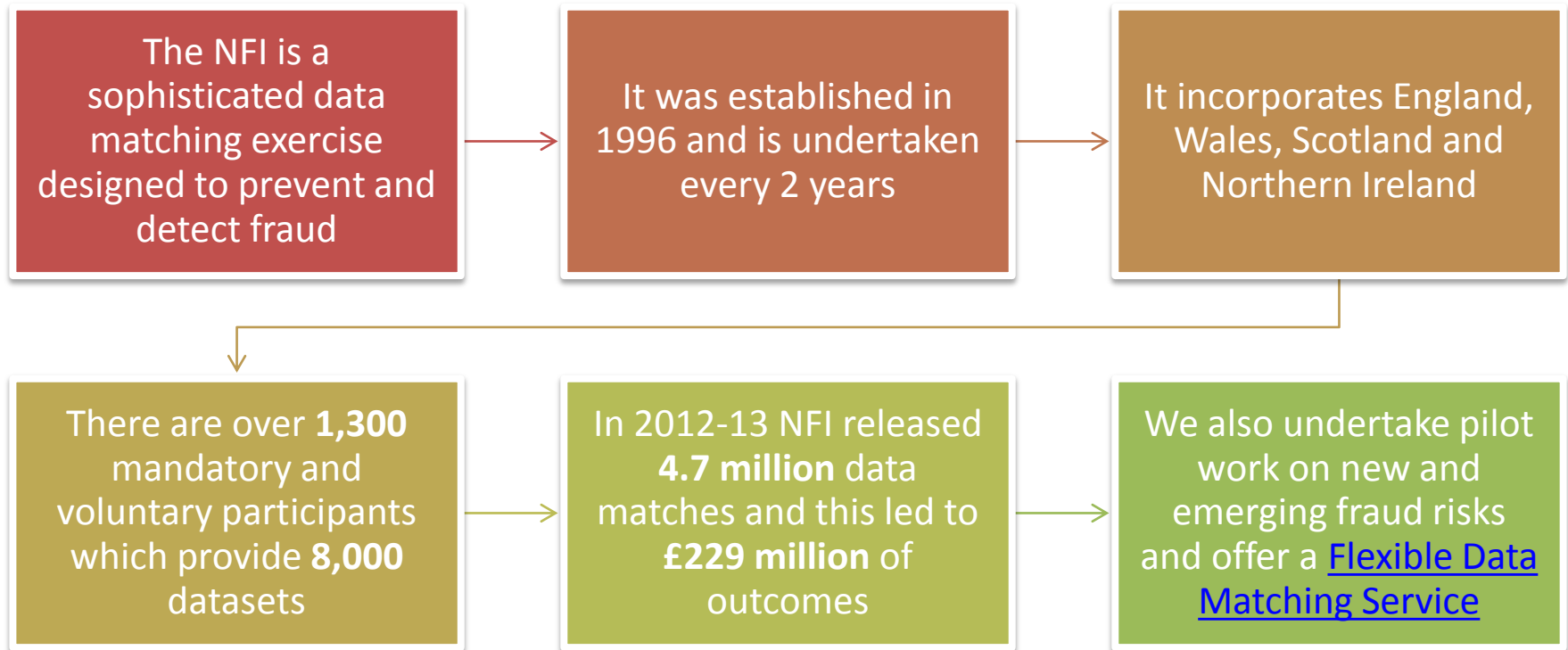


We have also included key NFI activity data for 2012/13 alongside tailored charts so you can compare your organisation with your neighbouring councils with similar profiles to yours



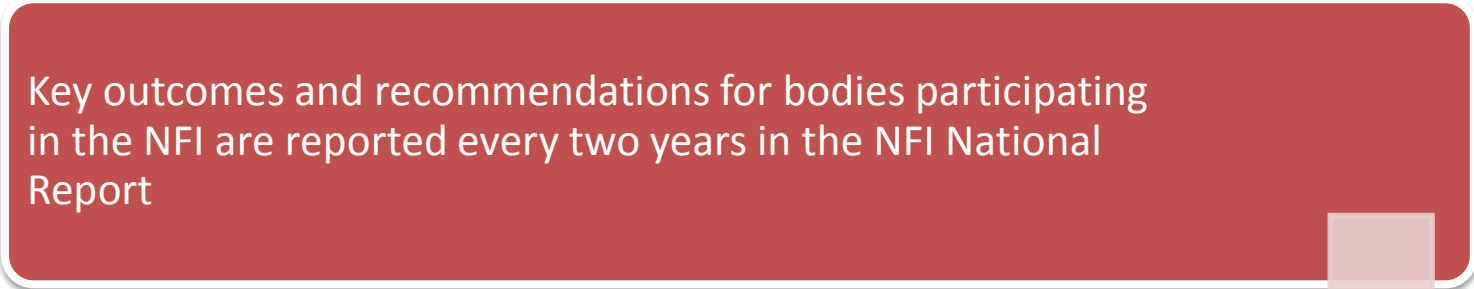
In case you have any questions we have included a glossary and link to further information at the end of the slide pack. If you require further information please contact nfiqueries@audit-commission.gsi.gov.uk

Background to the NFI

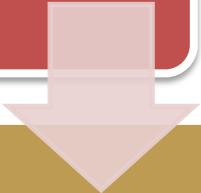
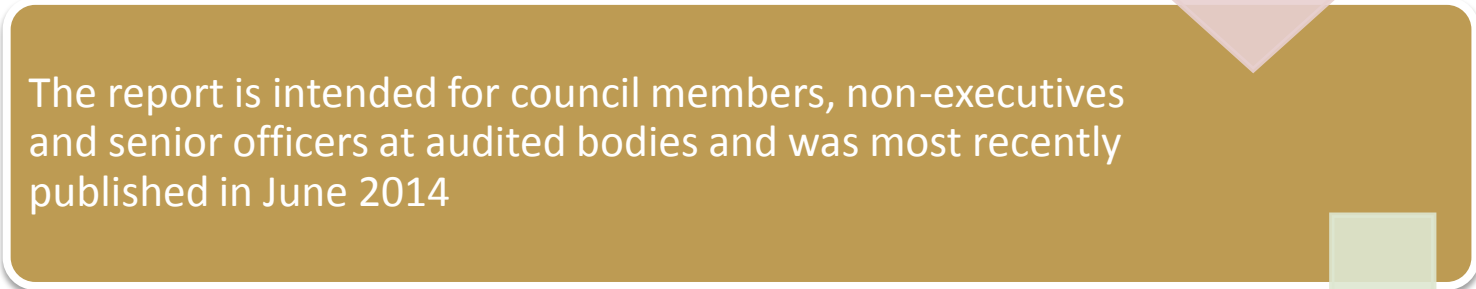


The NFI National Report

Key outcomes and recommendations for bodies participating in the NFI are reported every two years in the NFI National Report



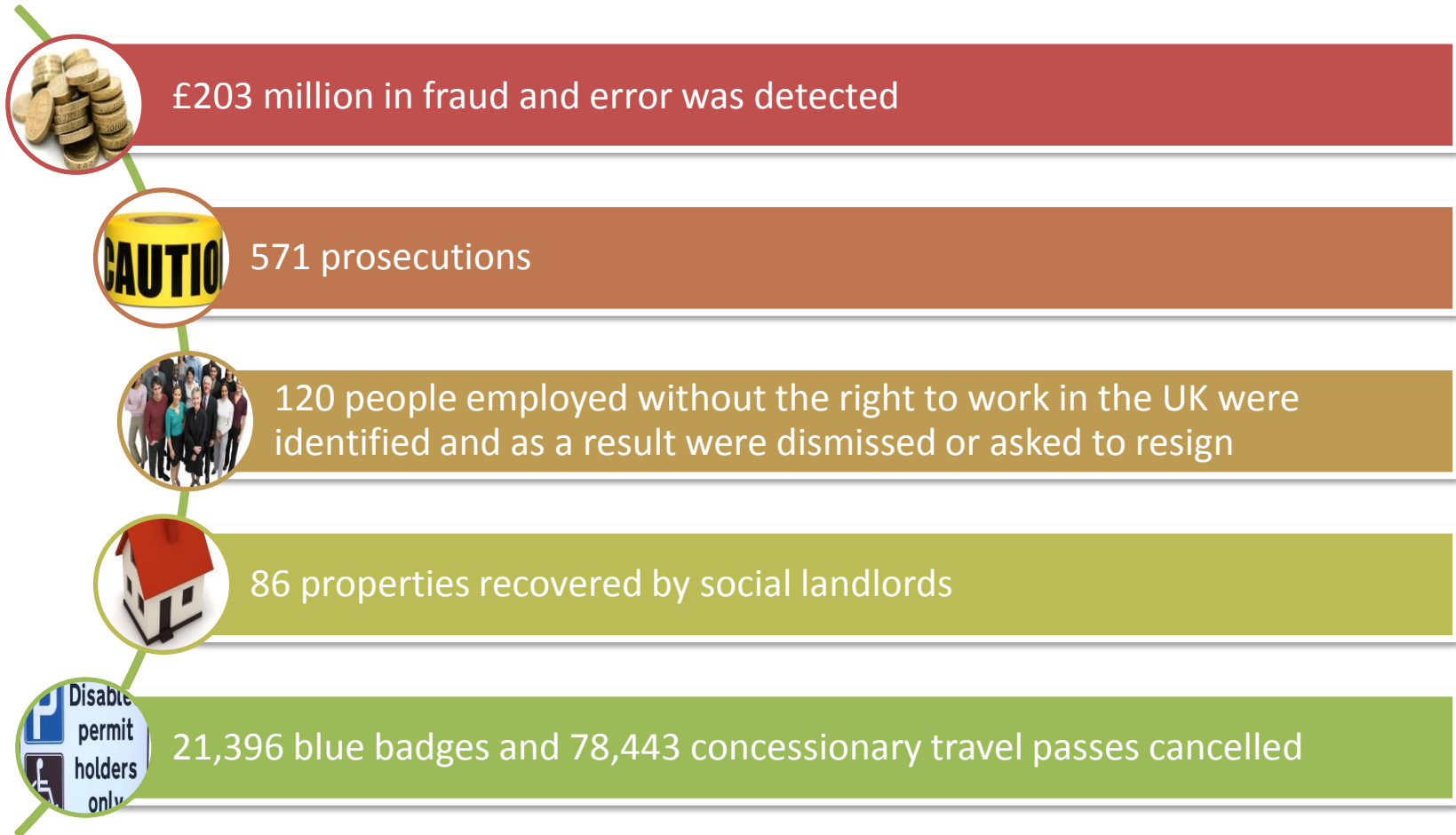
The report is intended for council members, non-executives and senior officers at audited bodies and was most recently published in June 2014



The report helps to demonstrate the effectiveness of the NFI in preventing and detecting fraud



Key Outcomes of the 2012/13 exercise - across England



The figures in the national report for detection of fraud, overpayment and error include outcomes already delivered and estimates. Estimates are included where it is reasonable to assume that the fraud, overpayment and error would have continued undetected without the NFI data matching. A more detailed explanation is included in [Appendix 1 of the NFI national report](#). If you have any further queries about the data in the slides please contact the NFI team using the contact details at the end of this slide pack.

Data matching at your organisation



The table and bar charts have been provided to give you an overview of the data matching activities at your council in relation to the most relevant comparator councils.



The table highlights the proportion of data matches followed up by your council. Participants of NFI receive a report of data matches that they should follow-up, and investigate where appropriate, to detect instances of fraud, over- or under-payments and other errors, to take remedial action and update their records accordingly.



Even where data matching shows little or no fraud and error, this still assures bodies about their control arrangements. It also strengthens the evidence for a council's annual governance statement.

Activity and Engagement with NFI – Rotherham Metropolitan Borough Council

	Total NFI matches in progress or processed	NFI recommended matches in progress or processed
Rotherham Metropolitan Borough Council	8% (870)	44% (821)
CIPFA nearest neighbours (Mean)	30% (2,870)	73% (1,259)
Metropolitan Districts (Mean)	20% (2,778)	47% (1,143)

The CIPFA nearest neighbours are the 15 councils which have been modelled as those with the most similar profile by CIPFA. More detail of the 2009 modelling methodology can be found at http://www.cipfastats.net/default_view.asp?content_ref=2748

Understanding the bar charts

Outcomes relating to your council are highlighted in yellow in the bar charts. The performance of your 15 CIPFA nearest neighbours are shown in the green bars.

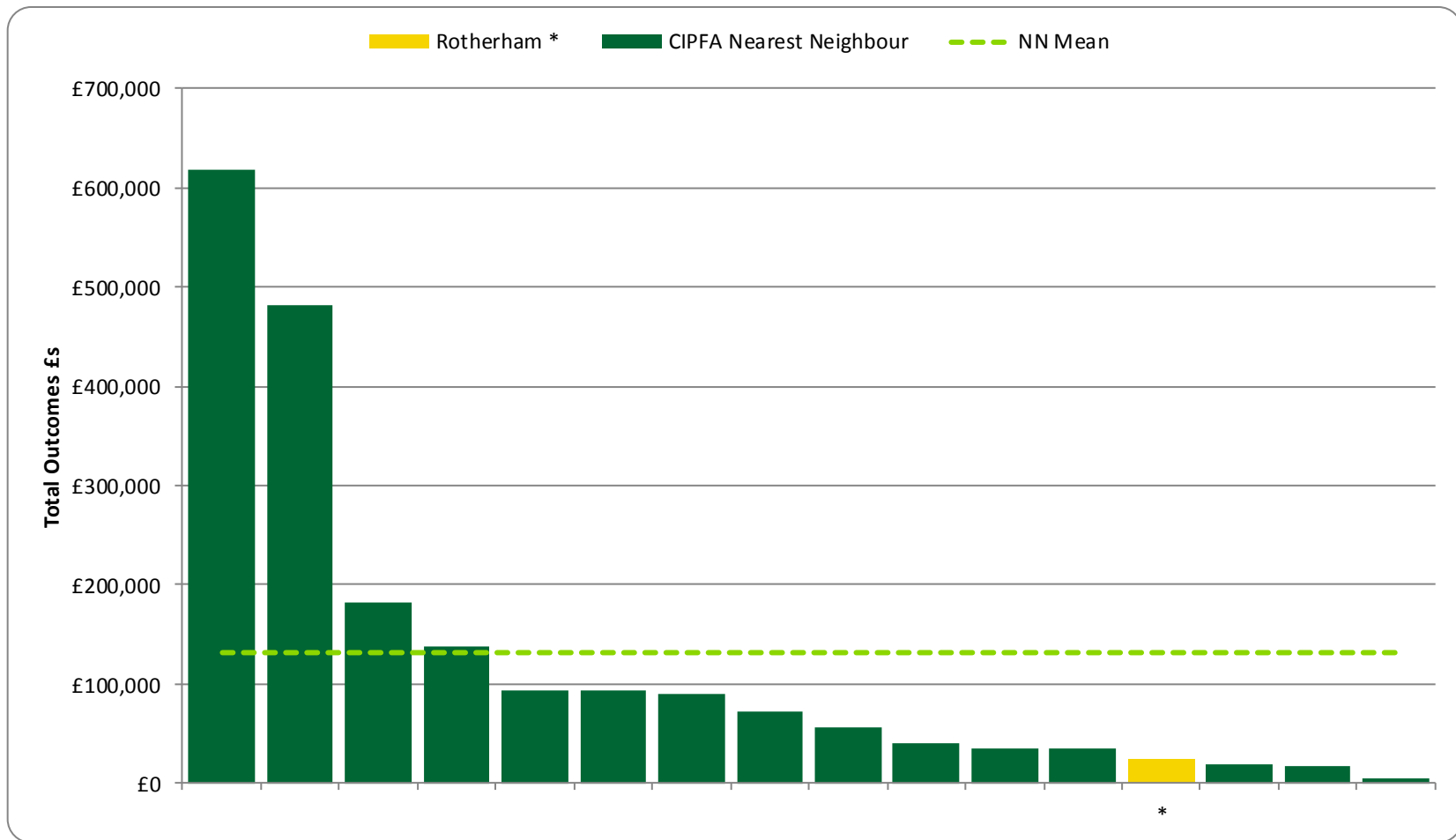


The mean value for your CIPFA nearest neighbours is highlighted by a green dashed line.



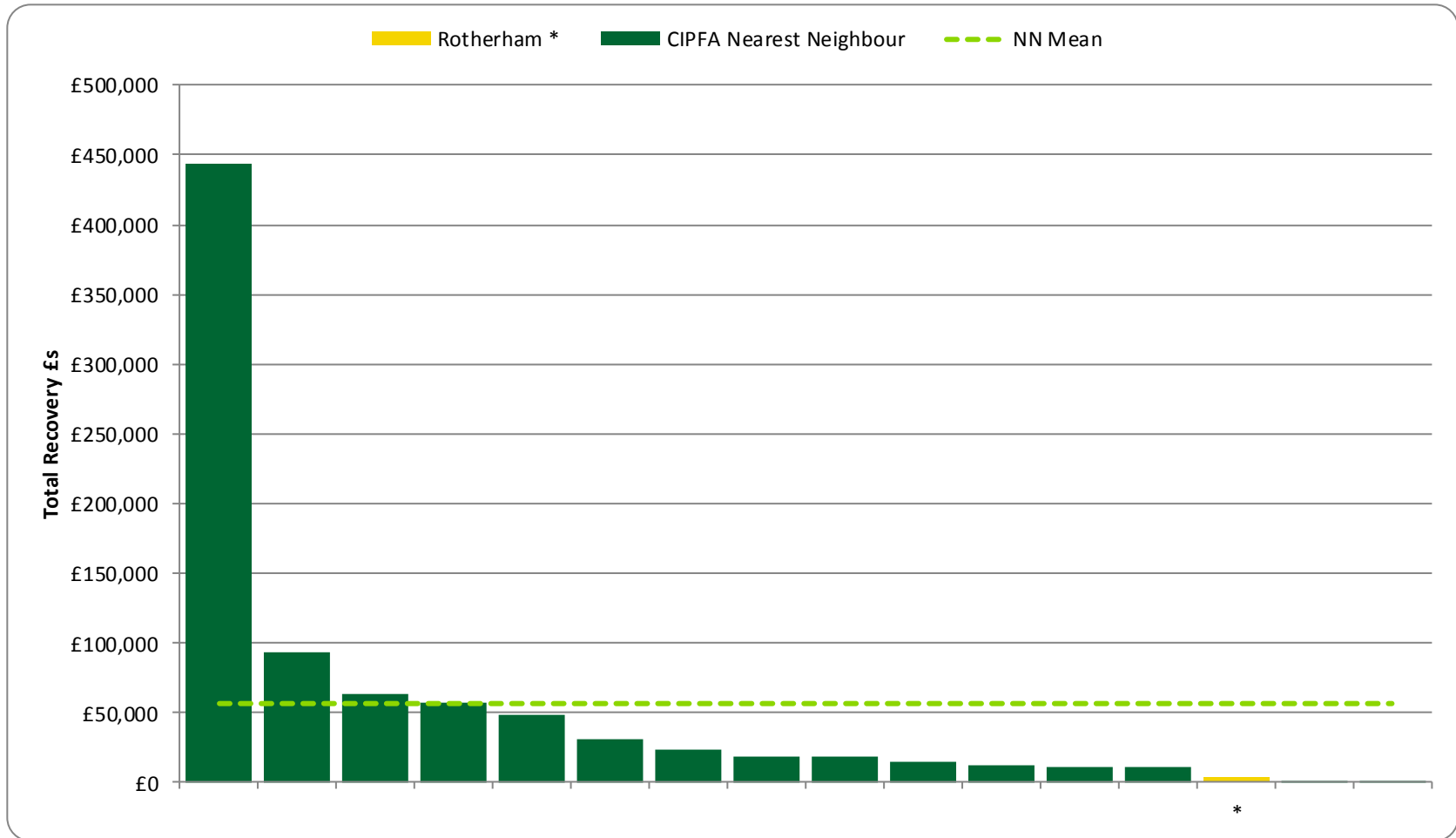
A '*' symbol has been used to denote where your council has no outcomes recorded.

Total NFI Outcomes – Rotherham Metropolitan Borough Council



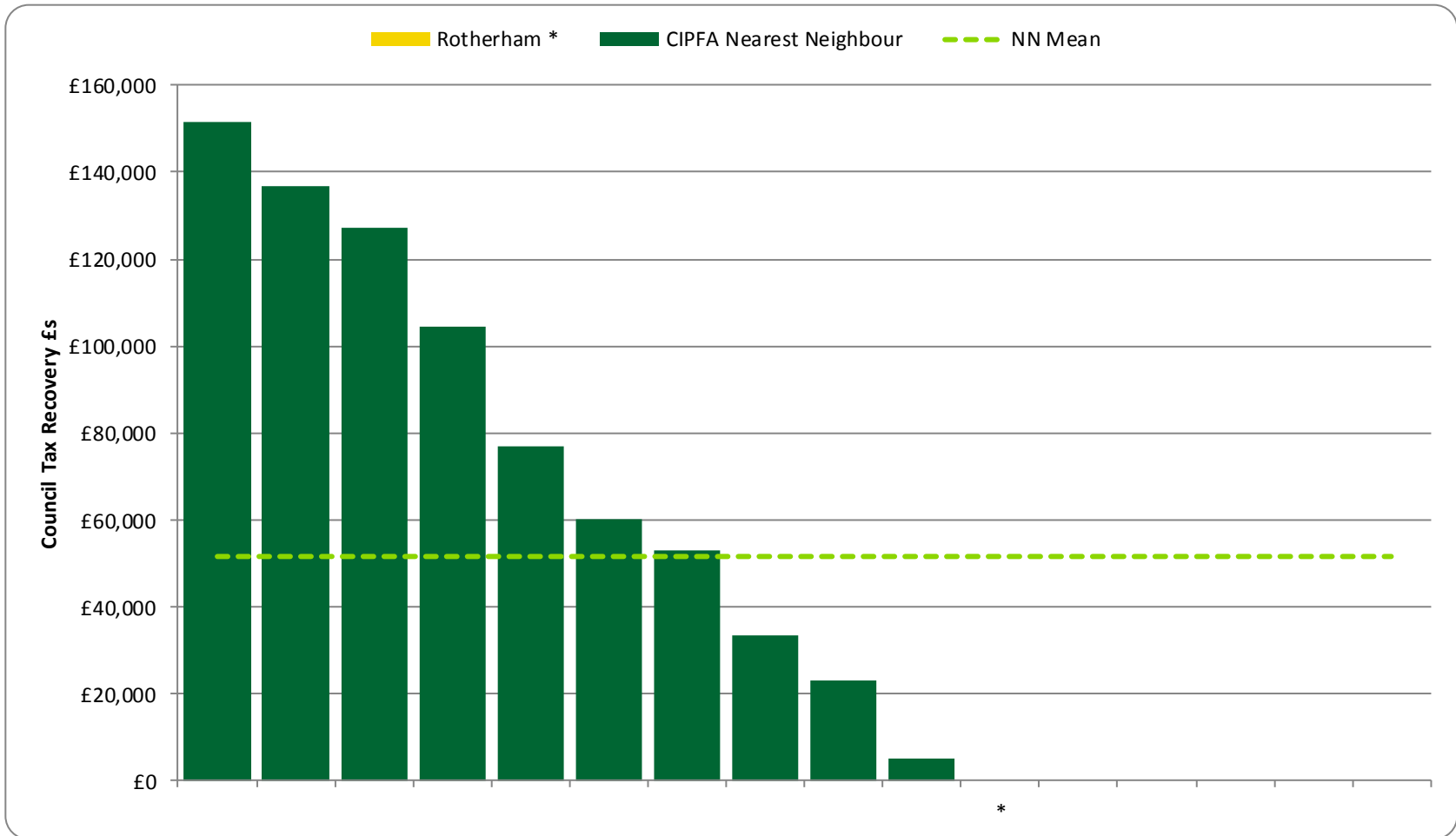
Please note outcomes from the NFI housing waiting lists pilot and council tax outcomes recorded in the NFI 2010/11 web application and FMS web application have not been included in this analysis.

Total NFI Recovery – Rotherham Metropolitan Borough Council



Please note this excludes council tax recovery recorded in the 2010/11 web application and FMS web application.

NFI Council Tax Outcomes – Rotherham Metropolitan Borough Council



Data relates to outcomes recorded in the 2010/11 web application and FMS web application.

Questions for Elected Members and Decision Makers

The NFI in our council

- What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI?

Maximising results

- Are we ensuring we maximise the benefits of the NFI for example, following up data matches promptly, recovering funds and prosecuting where possible?
- What assurances have we drawn about the effectiveness of internal controls and the risks faced by our council?

Broadening our council's engagement with the NFI

- Are we taking advantage of the opportunity to suggest and participate in the NFI pilot exercises and using the NFI Flexible Data Matching Service?

The NFI fit with wider counter-fraud policies

- How does the NFI influence the focus of our counter-fraud work for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy?

Glossary

Council tax outcomes	Council tax data is matched to electoral register data in order to identify instances where single persons discount may have been incorrectly awarded.
Flexible matching service	The flexible matching service allows you to re-perform any of the existing NFI data matching on demand outside of the usual two yearly programme but still using the proven NFI technology.
Mandatory participants	Bodies to which the Audit Commission appoints auditors other than registered social landlords as specified in Schedule 2 of the Audit Commission Act 1998.
NFI web application	The Commission has set up a secure, password-protected and encrypted website for its data matching exercises, known as the NFI web application.
Outcomes	Investigation of an NFI match may lead to a benefit being cancelled, overpayment generated or blue badges or concessionary travel passes being identified as invalid. These examples would be reported as NFI outcomes.
Pilots	The Commission will undertake new areas of data matching on a pilot basis to test their effectiveness in preventing or detecting fraud. Only where pilots achieve matches that demonstrate a significant level of potential fraud should they be extended nationally.
Recommended data matches	Matches considered to be of higher risk of potential fraud are signposted as a recommended data match.
Recovery	Where bodies seek to recover money lost as a result of fraud, error or overpayment.
Voluntary participants	Bodies that are outside Schedule 2 of the Audit Commission Act 1998 but elect to participate in NFI voluntarily.

If you have any further questions about the content of these slides please contact us using the details on the next slide.

Further Information

For further information about the NFI please look at our website

[NFI Website](#)



For further information about our Flexible Data Matching Service please follow the link below

[FMS Information](#)



For checklist questions for elected members and decision makers please follow link below

[NFI Checklist](#)



For any other queries please telephone 0303 444 8322 or email

nfiqueries@audit-commission.gsi.gov.uk



ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE
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1.	Meeting:	Audit Committee
2.	Date:	19th November 2014
3.	Title:	Review of Progress Against the Internal Audit Plan for the six months ending 30th September 2014
4.	Directorate:	Environment and Development Services

5. Summary.

This report contains a summary of Internal Audit work and performance for the six months ending 30th September 2014.

Progress on our Audit Plan remains slightly below target at this stage, for various reasons which include the loss of one member of staff through voluntary severance, another on maternity leave and the extended scope on some pieces of work. Additionally, following the publication of the Jay Report in August we have devoted some time to examining the issues highlighted by it, including carrying out a specific piece of work looking at the Council's Home to School Transport contracts and assertions relating to the removal of files from the Risky Business project.

By prioritisation of our audit activity, careful management of our resources and the utilisation of additional temporary resource, we expect to be able to have a sufficient body of audit evidence to form an opinion on the Council's control environment.

Based upon the work we have undertaken in the period, we were able to confirm that the Council's control environment was adequate and was operating satisfactorily.

6. Recommendations.

The Audit Committee is asked to:

- **note the performance of the Internal Audit Service during the period**
- **note the key issues arising from the work done in the period**

7. Proposals and Details.

7.1 Background

This report summarises the main activities of the Internal Audit service for the first six months of 2014/15. The report is presented to the Audit Committee to enable the Committee to fulfil its responsibility to oversee the work of Internal Audit. The report summarises:

- performance against key service benchmarks
- planned audit reports issued during the period, highlighting the overall conclusion/opinion for each audit
- the number of high priority recommendations made
- the proportion of recommendations agreed / not agreed
- a summary of responsive work undertaken
- an analysis of use of audit resources
- a summary of key service developments during the period.

7.2 Performance Indicators.

7.2.1 Our performance against a number of indicators is summarised in the table below:

Performance Indicator	2012/13 Actual	2013/14 Actual	2014/15 Target	Apr to Jul 2014
Draft reports issued within 15 days of field work being completed.	93%	95%	95%	95%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	50%*
Chargeable Time/Gross Time.	65%	63%	63%	63%
Audits completed within planned time.	93%	95%	95%	72%
Percentage of Audit Plan completed.	78%	85%	85%	**
Cost per Chargeable Day.	£275	£265	£265	£273
Client Satisfaction Survey.	100%	100%	100%	100%

* Two 3 star recommendations were made during the period and management chose not to agree with one (see 7.3.2 c)

** The % of Audit Plan completed is a full year indicator and will be reported in the Annual Internal Audit Report. An estimate of what this is likely to be will be brought to the January 2015 Audit Committee.

7.2.2 Although progress has improved and some indicators are back on target, others still remain below target. However, we anticipate that these all will be largely on target by year-end.

7.2.3 Those below target at this stage relate to *'Audits completed within planned time'* and *'Percentage of Audit Plan completed'*. The scopes on a small number of jobs have been extended causing some jobs to take longer than original planned time.

The percentage of audit plan completed is a full year indicator, but at this stage we do not expect to achieve the target 85%. This is partly because of the extended scope on some jobs, but also due to the voluntary severance of one member of staff, maternity leave of another and additional audit assignments such as those emanating from the Jay Report into child sexual exploitation.

Action is being taken to prioritise our audit coverage and arrangements have been made to access extra temporary resource to assist in delivery of the Audit Plan which should improve performance by the year end. Consequently, we expect to be able to have a sufficient body of audit evidence to form an opinion on the Council's control environment and carry out the work that the Council's external auditor, KPMG, use to carry out their audit of the statutory Financial Statements.

7.2.4 It is still pleasing to note that client satisfaction with our service continues to be excellent.

7.2.5 Other factors affecting our performance to date are outlined at **Appendix C – Analysis of Use of Audit Resources**.

7.3 Planned Audit Reports and Recommendations.

7.3.1 **Appendix A** shows the audit reports issued during the first six months of the year. Audit findings in most areas indicated that satisfactory control arrangements were in place and testing confirmed that these controls were operating effectively during the period under review. Notwithstanding this, our work shows that there are opportunities to strengthen arrangements in some of those areas. Implementation of Internal Audit's recommendations for improvement will reduce the Council's exposure to risks.

7.3.2 During the period we identified three areas that required us to report an 'inadequate' opinion: -

a) CYPS: Contract for School Improvement Activity

The Council, via the Schools Forum, approved funding of £2.1m to commission a school company to deliver school improvement activity, including providing leadership courses to Head Teachers and other teachers in Rotherham's maintained schools. We identified that financial governance arrangements were not effective because there was a lack of clarity as to the outcomes that schools were receiving for the money spent and a lack of evidence that value for money had been secured from the arrangement.

We have made a number of recommendations to improve governance arrangements, which have been agreed with CYPS Management.

b) EDS: Highways Final Accounts Arrangements

We found the current arrangements within EDS Streetpride for verifying non fixed-price contract costs during the currency of a contract and at final account stage to be inadequate which could expose the Council to unnecessary financial risk.

We have brought this to the attention of the Strategic Director EDS and made recommendations to ensure robust 'open book' checks on costs are implemented going forward. These have now been agreed with EDS Management.

c) EDS: Blue Badge Scheme

We found that processes for checking to assess eligibility for the discretionary award of Blue Badges was weak and suggested the introduction of Independent Mobility Assessments. However, management has chosen not to accept our recommendation on the basis of their judgement that the cost of implementing our recommendations was too high in relation to the level of risk involved.

7.3.3 During the period, we gave an 'adequate' opinion on the majority of audits. However a few of these nevertheless identified a number of significant concerns: -

a) CYPS: Secondary School

We identified weaknesses in the school's budgetary control and governance arrangements which had resulted in the provision of inaccurate financial information to Governors. The school had also failed on a number of occasions to comply with the competitive procurement requirements of Financial Regulations for Schools in the award of contracts. We have made recommendations to address this.

b) NAS: Residential Care Home

We found that the mechanism for care home residents paying for their share of accommodation charges was inefficient and gave rise to security risk. Large amounts of cash were being withdrawn by staff from the bank accounts of residents and then stored in the care home safe before being taken by a cash collection contractor (Loomis) to be paid into the Council's bank account. Management has agreed to implement our recommendation to collect all accommodation charges by bank standing order, wherever possible.

c) EDS: Country Park (Car Parking Charges)

The Park generates approximately £¼ Million per annum as cash income from car parking charges. We found the control arrangements for income collection and reconciliation to be weak, giving rise to an increased risk that misappropriation would go undetected. We have recommended a series of measures to improve control and management has agreed to implement these.

7.4 Responsive Audits.

Appendix B summarises responsive work carried out in the period, which can be categorised into two main areas:

- investigative work
- requests for advice and assistance.

Examples of the more significant areas examined in the period include: -

a) NAS: Investigation into Suspected Financial Abuse

Following a request from the NAS Safeguarding Team, we carried out a review of the arrangements in place at a commissioned external service provider for administering the financial affairs of two service users with physical and sensory disabilities. We identified several transactions involving the clients' personal monies, which we felt required further investigation by the NAS Safeguarding Team to establish the purpose and validity of the costs. This work is being progressed and concluded by NAS.

b) EDS: Car Parking Income

We were informed of two recent instances of income shortfalls (totalling £800) from one of the Council's car parking machines. Subsequent checks suggested that theft was the likely cause. A further theft was suspected after a cash box containing £600 went missing following collection. We conducted a thorough investigation to trace the transit of cash boxes from their collection from pay and display machines to delivery to, storage at and emptying and counting at Riverside House. We were unable to identify the source of these thefts. We are now working with Parking Services to strengthen the security arrangements for car parking income.

c) EDS: Cash Security – Parks

We were informed of two separate incidents of thefts of cash (totalling £2,800) from two of the Council's parks. In both cases there was insufficient evidence to identify the thief; however, we have identified weaknesses in systems and procedures for receipting and banking cash. We have made recommendations to improve security arrangements to minimise the risk of this occurring in future. These are currently being considered by management.

d) EDS: Home to School Transport (Safeguarding)

Following a request from the Chief Executive, we are in the process of examining the safeguarding arrangements in place around the provision of 'Home to School Transport' (HST). We have identified specific safeguarding risks and concerns around the wider use of taxis by various schools and other Council establishments e.g. for children's residential units for the transport of vulnerable children outside of the EDS HST contracts. This work is still ongoing.

e) EDS: Disposal/Sale of Scrap Metal

Following a whistle blowing report, we investigated an allegation that a Council employee had been taking items of obsolete Council equipment/material earmarked for disposal (i.e. scrap metal), using Council vehicles, to a local scrap metal recycling company and 'weighing-in' the metal for cash payments. HR is currently conducting investigatory interviews.

f) NAS: Maintenance of Former Landfill Sites

Following comparative information provided by a neighbouring local authority, we examined the Council's contractual arrangements for the maintenance of its former landfill sites and found the work had not been subjected to competitive tender for a number of years. We have recommended to management that the contract should be exposed to competition and opportunities for maximising potential savings through a shared framework agreement should be explored. The Corporate Procurement Team is leading this process.

h) CYPS: Risky Business

At the request of the Chief Executive, we are currently investigating allegations into the theft / disappearance of files from the Risky Business premises in 2002.

7.5 Analysis of Use of Audit Resources

The Audit Plan presented to the Audit Committee on 23th April 2014 identified the time available for internal audit during the year, the expected number of chargeable audit days and expected usage of available time. An analysis of the actual use of audit resources compared to the profiled budget at the end of September 2014 has been undertaken and is shown at **Appendix C**.

7.6 Summary of Key Service Developments During the Period

We have also recently recruited an 'Audit Apprentice'. This is a temporary appointment for a period of twelve months and helps meet a Council priority of providing quality education and ensuring that people have opportunities to improve skills, learn and get a job. The cost of this post will be met from within the existing budget.

8. Finance.

There are no direct financial implications arising from this report.

9. Risks and Uncertainties.

Failure to deliver an effective internal audit function would weaken the Council's internal control arrangements and increase the risk of erroneous and / or irregular activities.

10. Policy and Performance Agenda Implications.

The strength of Internal Audit impacts upon the Council's internal control environment. A sound control environment is part of good governance, which is wholly related to the achievement of the objectives in the Council's Corporate Plan.

11. Background Papers and Consultation.

Detailed audit reports.

Contact Names:

Colin Earl, Director of Audit and Asset Management x22033

Marc Bicknell, Chief Auditor x23297

Appendices:

Appendix A: Summary of Planned Audits Completed: Apr – Sept 2014

Appendix B: Summary of Internal Audit Responsive Work: Apr – Sept 2014

Appendix C: Analysis of Use of Audit Resources: Apr – Sept 2014

Summary of Internal Audit Work: April – Sept 2014**Appendix A**

Area Audited	No. of Recs Made	No. of Recs Agreed	Variance	No. of 3* Recs Made	No. of 3* Recs Agreed	Opinion Adequate/ Inadequate
<u>Children and Young People's Services Directorate</u>						
Learners First Schools Partnership	12	*	*	2	*	Inadequate
Swinton Comprehensive School	41	41	0	0	0	Adequate
<u>Neighbourhoods and Adult Services Directorate</u>						
Davies Court Residential Home	11	11	0	0	0	Adequate
Lord Hardy Court Residential Home	20	20	0	0	0	Adequate
Parkhill Lodge Residential Home	16	**	**	0	0	Adequate
<u>Environment and Development Services Directorate</u>						
Riverside House Library	4	4	0	0	0	Adequate
Customer Service Centres	3	3	0	0	0	Adequate
Riverside House Cafe	9	9	0	0	0	Adequate
Cashiers Service	3	3	0	0	0	Adequate
Commercial Property Rental Income	1	1	0	0	0	Adequate
Thrybergh Country Park	5	5	0	0	0	Adequate
Highways Final Accounts Arrangements	2	2	0	0	0	Inadequate
Hire of Plant and Equipment	2	2	0	0	0	Adequate
Clifton Park Museum	11	11	0	0	0	Adequate
Dinnington Business Centre	2	2	0	0	0	Adequate
Rother Valley Country Park	21	21	0	0	0	Adequate
Blue Badge Scheme	5	3	2	1	0	Inadequate
Carbon Reduction Commitment	4	**	**	0	0	Adequate
Markets Income	4	**	**	0	0	Adequate
Waste PFI (BDR)	n/a	n/a	n/a	n/a	n/a	Adequate
Civic Theatre Bar	4	4	0	0	0	Adequate
<u>Other</u>						
Annual Fraud Report	n/a	n/a	n/a	n/a	n/a	Adequate
UK PSIAS Report	n/a	n/a	n/a	n/a	n/a	Adequate
NFI – Data preparation & submission	n/a	n/a	n/a	n/a	n/a	n/a
<u>Grants</u>						
Troubled Families (CYPS)	n/a	n/a	n/a	n/a	n/a	Adequate
Rotherham Active Ability (EDS)	n/a	n/a	n/a	n/a	n/a	Adequate
Flood Recovery Scheme	n/a	n/a	n/a	n/a	n/a	Adequate
16-19 Bursary Grant	n/a	n/a	n/a	n/a	n/a	Adequate
<u>Work for Outside Bodies</u>						
Wingfield Academy – Inventory	6	6	0	0	0	Adequate
Saint Pius – Private School Fund	n/a	n/a	n/a	n/a	n/a	Adequate

* Final report issued – awaiting formal response to recommendations.

** Draft report issued – awaiting feedback/comments.

Summary of Internal Audit Responsive Work: April – Sept 2014

Description
<u>Children and Young People Services Directorate</u>
CYPS management informed Internal Audit of a data leakage incident in April 2014. We offered verbal advice in respect of how the data leakage incident might have occurred and what steps could be taken to prevent such a breach occurring again.
<u>Neighbourhoods and Adult Services Directorate</u>
Investigation into suspected financial abuse - See 7.4 a)
Integrated Housing Management System (IHMS) – See 7.4 g)
We have undertaken further work reviewing the shared savings model applied to the two Housing Repairs and Maintenance Contracts. We are currently investigating significant variances in the savings being realised from each contract.
We provided benchmarking information to the Corporate Procurement Team on the current threshold at which contracts are procured by formal tender, by neighbouring South & West Yorkshire authorities.
Maintenance of Former Landfill Sites – See 7.4 f)
<u>EDS</u>
Car Parking Income – See 7.4 b)
Cash Security – Parks – See 7.4 c)
Home to School Transport (Safeguarding) – See 7.4 d)
Disposal/Sale of Scrap Metal – See 7.4 e)
<u>Corporate issues</u>
A routine periodic review of the Vodafone mobile phone contract identified high levels of usage on Directory Enquiries connections. This has resulted in high costs to the Authority, over £500 for one quarter. We have instructed Managers of the correct procedures and recommended a 'Managers Briefing' on the subject is issued to staff. We also identified a small number of instances of high personal usage. This has also been reported to the relevant line managers to follow-up.
Financial Regulations were revised, presented to and approved by Audit Committee on 30th October 2013. However minor revisions were made in April 2014 for the purpose of simplifying and rationalising, to condense the five main areas of the Regulations into three. Guidance Notes were replaced by hyperlinks to separate documents and the updated version was placed on the Council's Intranet.

Analysis of use of Audit Resources April – Sept 2014Analysis of use of Audit Resources

	<u>Budget</u> <u>2014/15</u>	<u>Profiled</u> <u>Budget</u> <u>(Periods</u> <u>1- 6)</u>	<u>Actual</u> <u>(Periods</u> <u>1 – 6)</u>	<u>Variance</u>
Internal Audit Establishment	2432	1216	1180	-36
Less – Maternity Leave	178	89	70	-19
Gross Days Available	2254	1127	1110	-17
Less				
Leave (Annual / Statutory / Other)	335	168	172	+4
Elections	4	4	4	0
Sickness	63	31	58	+27
Service Development	50	25	7	-18
Professional Training and CPD	100	50	18	-32
Management and Supervision	180	90	114	+24
Industrial Action	0	0	7	+7
Admin and Clerical	65	33	35	+2
Less	797	401	415	+14
Gross Audit Days Available	1457	726	695	-31
Less				
2013/14 Work Carried Forward / Follow Up Work	92	92	146	+54
Less	92	92	146	+54
Net Audit Days Available for 2014/15	1365	634	549	-85
Responsive Audits	221	111	71	-40
Planned Audits	1144	523	478	-45

Summary

There have been a number of variances between budgeted and actual days, the most significant of which is a reduction against the net audit days that were expected to be available during the period (i.e. by 85 days). The impact of this has been a reduction in the percentage of the audit plan completed and led to an increase in our 'cost per chargeable day' (see table at 7.2.1).

Analysis of use of Audit Resources April – Sept 2014

This is mainly attributable to: -

- A member of staff taking voluntary severance.
- A significant increase in the time spent on work carried forward from 2013/14 (+54 days), due to the addition of two extra pieces of work (one that was particularly complex and protracted) at the end of last year that were not foreseen at the time of preparing the Audit Plan.
- Sickness absence has been higher than expected (+27 days) mainly as a result of one member of staff having a protracted illness prior to commencing maternity leave.
- Unforeseen Industrial Action has also contributed to this position.

As mentioned at 7.2.2, we do expect see the position improve by the end of the financial year.

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE
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1. Meeting:	Audit Committee
2. Date:	19th November 2014
3. Title:	Risks and Issues arising from the Jay Report into Child Sexual Exploitation in Rotherham 1997 - 2013
4. Directorate:	Environment and Development Services

5. Summary.

This report identifies how risks and issues arising from the Jay Report into Child Sexual Exploitation in Rotherham 1997 – 2013 are being addressed by the Council, and how the Audit Committee can obtain assurance that effective responses are being made to the risks and issues raised.

The main responsibilities for the Audit Committee involve ensuring recommendations are appropriately progressed, ensuring there is appropriate risk assessment and management, and receiving reports arising from Internal Audit work in specific areas.

6. Recommendations.

The Audit Committee is asked

- **to note the implications of the Jay Report, recent Ofsted inspections and other related reviews on the work of Internal Audit and the Audit Committee**
- **to agree to receive further regular reports on progress in relation to the work identified.**

7. Proposals and Details.

The Jay Report details the findings of the Independent Inquiry into Child Sexual Exploitation (CSE) in Rotherham. The inquiry, which was undertaken at the Council's request, was completed by Alexis Jay and published in August 2014.

It highlights a number of factors that need improving to strengthen the care provided to vulnerable Children, including:

- Better strategic approach
- Assurance over core standards of practice
- Better care risk assessments
- Assessment & care planning
- Children's homes & residential units
- Training & awareness
- Reaching out to community groups
- Earlier and better prevention
- Performance monitoring and management
- Information systems
- Resources.

In the first instance it will be for management and the Executive to implement recommendations made. Scrutiny will look into any matters to test out the effectiveness of new arrangements. The Safeguarding Board will continue to have a lead role in monitoring CSE and the Corporate Improvement Board will include CSE as one of its priorities.

The report relating to the recent Ofsted inspections is due to be published on 19 November and will doubtless make reference to these issues and recommendations for their improvement.

Also to be incorporated into the Council's actions will be (1) the 'Summary of Recommendations for All Agencies' which was produced by the National Working Group Network on Tackling Child Sexual Exploitation and (2) recommendations from earlier reports collated by the Safeguarding Board, which are set out in full at Appendix 5 to the Jay Report.

The Audit Committee will, as usual, receive regular updates on progress against inspection recommendations. This will enable the Committee to fulfil its terms of reference with regard to the Council's response to the risks and issues raised. It will also enable the Committee to ask for further information in any particular areas, particularly where progress might not be as required.

The Jay Report makes 15 recommendations. Again, these are mostly for Executive decision making and professional practice, although there are some assurances the Audit Committee could look for to confirm the risks (of failing

to adopt and apply appropriate arrangements) are being managed. Comments are included below:

	Recommendation	Comment regarding Audit / Audit Committee assurance
1	Senior managers should ensure that there are up-to-date risk assessments on all children affected by CSE. These should be of consistently high quality and clearly recorded on the child's file.	Ensure there is an effective professional audit and quality assurance of risk assessments.
2	The numeric scoring tool should be kept under review. Professional judgements about risk should be clearly recorded where these are not adequately captured by the numeric tool.	As above
3	Managers should develop a more strategic approach to protecting looked after children who are sexually exploited. This must include the use of out-of-area placements. The Borough should work with other authorities to minimise the risks of sexual exploitation to all children, including those living in placements where they may become exposed to CSE. The strategy should include improved arrangements for supporting children in out-of-area placements when they require leaving care services.	Ensure risk management arrangements are comprehensive and highlight the risks involved and their mitigation. Ensure there are regular reports on progress and risk
4	The Council should make every effort to make help reach out to victims of CSE who are not yet in touch with services. In particular, it should make every effort to restore open access and outreach work with children affected by CSE to the level previously provided by Risky Business.	Monitor progress on implementation of the recommendation.
5	The remit and responsibilities of the joint CSE team should be urgently decided and communicated to all concerned in a way that leaves no room for doubt.	Monitor progress on implementation of the recommendation.
6	Agencies should commit to introducing a single manager for the multi-agency CSE team. This should be implemented as quickly as possible.	Monitor progress on implementation of the recommendation.
7	The Council, together with the Police, should review the social care resources available to the CSE team, and make sure these are consistent with the need and demand for services.	Monitor progress on implementation of the recommendation.

	Recommendation	Comment regarding Audit / Audit Committee assurance
8	Wider children's social care, the CSE team and integrated youth and support services should work better together to ensure that children affected by CSE are well supported and offered an appropriate range of preventive services.	Monitor progress on implementation of the recommendation.
9	All services should recognise that once a child is affected by CSE, he or she is likely to require support and therapeutic intervention for an extended period of time. Children should not be offered short-term intervention only, and cases should not be closed prematurely.	Ensure audit and quality assurance checks consider the period of support provided to Children.
10	The Safeguarding Board, through the CSE Sub-group, should work with local agencies, including health, to secure the delivery of post-abuse support services.	Monitor progress on implementation of the recommendation.
11	All agencies should continue to resource, and strengthen, the quality assurance work currently underway under the auspices of the Safeguarding Board.	Ensure there is an effective professional audit and quality assurance of risk assessments.
12	There should be more direct and more frequent engagement by the Council and also the Safeguarding Board with women and men from minority ethnic communities on the issue of CSE and other forms of abuse.	Monitor progress on implementation of the recommendation.
13	The Safeguarding Board should address the under-reporting of sexual exploitation and abuse in minority ethnic communities.	Monitor progress on implementation of the recommendation.
14	The issue of race should be tackled as an absolute priority if it is a significant factor in the criminal activity of organised child sexual abuse in the Borough.	Monitor progress on implementation of the recommendation.
15	We recommend to the Department of Education that the guiding principle on redactions in Serious Case Reviews must be that the welfare of any children involved is paramount.	This is a recommendation for the Department For Education

It is proposed to bring an update on these activities to the Audit Committee alongside the regular reports received on progress against inspections

recommendations (i.e twice yearly). Any specific issues requiring more immediate attention will be presented as required.

The Audit Committee will also receive regular updates with regard to the management of risks.

There are some other specific issues raised by the Jay Report where Internal Audit would be qualified to look into and comment on arrangements. These are:

- Taxi licensing arrangements
- Home to school transport
- Data protection & security
- Review of the whistle blowing process - adequacy and effectiveness of arrangements for and the management of the policy and procedures for the whistle blowing process
- Adequacy of performance management arrangements including monitoring, supervision and the provision of sound information systems.

Internal Audit has already commenced a review of the Council's Home to School Transport arrangements.

8. Finance

The risks and issues arising from the CSE inquiry require ongoing management action. In some cases additional resources may be necessary to implement the relevant actions or mitigate risks. Any additional costs associated with the risks should be reported to the SLT and Members for consideration on a case by case basis.

9. Risks and Uncertainties

Failure to address the risks and issues arising from the CSE inquiry and other external reviews of the Council's services would perpetuate the delivery of unacceptable services and standards to vulnerable Children. It could also result in significant financial pressures, reputation damage and imposed intervention.

10. Policy and Performance Agenda Implications

The protection of vulnerable Children is a key priority for the Council.

11. Background Papers and Consultation

Alexis Jay Report.

Contact Names:

Colin Earl, Director of Audit and Asset Management, x22033

Marc Bicknell, Chief Auditor, x23297